



February 6, 2015

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## HOUSE BILL No. 1264

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DIGEST OF HB 1264 (Updated February 3, 2015 1:59 pm - DI 87)

**Citations Affected:** IC 5-11; IC 6-1.1.

**Synopsis:** Political subdivision internal controls. Requires the legislative body or governing body of a political subdivision to: (1) ensure appropriate training of personnel concerning the internal control system; and (2) annually certify that certain internal controls of the local government are in place. Specifies certain reporting and followup related to a report of misappropriation of political subdivision funds. Provides for the development of training materials by the state board of accounts. Requires state board of accounts action for material variances, losses, shortages, or thefts. Provides for restitution related to attorney general proceedings. Provides that after December 31, 2016, the department of local government finance may not approve a political subdivision budget until receipt of certification that applicable training has been completed. Requires internal audits, internal control reviews, and reporting by certain state agencies.

**Effective:** July 1, 2015.

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### Koch, Lehman

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January 13, 2015, read first time and referred to Committee on Government and Regulatory Reform.  
February 5, 2015, amended, reported — Do Pass.

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HB 1264—LS 7089/DI 97





February 6, 2015

First Regular Session of the 119th General Assembly (2015)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2014 Regular Session and 2014 Second Regular Technical Session of the General Assembly.

## HOUSE BILL No. 1264

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A BILL FOR AN ACT to amend the Indiana Code concerning state and local administration.

*Be it enacted by the General Assembly of the State of Indiana:*

1 SECTION 1. IC 5-11-1-27, AS ADDED BY P.L.117-2011,  
2 SECTION 2, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
3 JULY 1, 2015]: Sec. 27. (a) As used in this section, "~~local government~~"  
4 ~~means county, city, town, or township.~~ "**legislative body**" has the  
5 **meaning set forth in IC 36-1-2-9.**

6 (b) As used in this section, "**political subdivision**" has the  
7 **meaning set forth in IC 5-11-10.5-1.**

8 (c) As used in this section, "**material**" means a **significant or**  
9 **consequential amount, as determined by the state examiner and**  
10 **approved by the audit committee.**

11 ~~(b)~~ (d) In the compliance guidelines authorized under section 24 of  
12 this chapter, the state board of accounts shall define the acceptable  
13 minimum level of

14 (1) internal control standards and

15 (2) internal control procedures

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1 for internal control systems of local governments, political  
2 subdivisions, including the following:

- 3 (1) Control environment.  
4 (2) Risk assessment.  
5 (3) Control activities.  
6 (4) Information and communication.  
7 (5) Monitoring.

8 The internal control standards and procedures shall be developed to  
9 promote government accountability and transparency.

10 (e) The state board of accounts shall develop or designate  
11 approved personnel training materials to implement this section.

12 (f) The legislative body of a political subdivision shall ensure  
13 that personnel are trained concerning:

- 14 (1) all statutes and rules relevant to the work of the individual  
15 personnel; and  
16 (2) the local government's internal control system.

17 (g) The legislative body of a local government shall, not later  
18 than December 31, of each year, certify in writing to the  
19 department of local government finance that the minimum  
20 standards and procedures defined under subsection (d) are in place  
21 in the political subdivision.

22 ~~(e)~~ (h) All erroneous or irregular variances, losses, shortages, or  
23 thefts of local government political subdivision funds or property shall  
24 be reported immediately to the state board of accounts. For all  
25 material variances, losses, shortages, or thefts, the state board of  
26 accounts shall:

- 27 (1) determine the amount of funds involved and report the amount  
28 to the appropriate government and law enforcement officials;  
29 (2) determine the internal control weakness that contributed to or  
30 caused the condition; and  
31 (3) make written recommendations to the appropriate legislative  
32 body or appropriate official overseeing the internal control system  
33 addressing:  
34 (A) the method of correcting the condition; and  
35 (B) the necessary internal control policies and internal control  
36 procedures that must be modified to prevent a recurrence of  
37 the condition.

38 ~~(d)~~ (i) The legislative body or the appropriate official overseeing the  
39 internal control system shall immediately implement the policies and  
40 procedures recommended by the state board of accounts under  
41 subsection ~~(e)(3)(B)~~: (h)(3)(B).

42 (j) A public officer who has actual knowledge of or reasonable



1 cause to believe that there has been a misappropriation of public  
2 funds or assets of the public office, including:

- 3 (1) information obtained as a result of a police report;  
4 (2) an internal audit finding; or  
5 (3) another source indicating that a misappropriation has  
6 occurred;

7 shall immediately send written notice of the misappropriation to  
8 the state board of accounts and the prosecuting attorney serving in  
9 the area governed by the political subdivision.

10 (k) If the attorney general institutes civil proceedings related to  
11 this section or under IC 5-11-5-1, the attorney general shall seek,  
12 in addition to the recovery of any funds misappropriated, diverted,  
13 or unaccounted for, restitution of:

- 14 (1) costs incurred by the state board of accounts; and  
15 (2) all costs and reasonable attorney's fees incurred by the  
16 attorney general;

17 in connection with the civil proceedings.

18 SECTION 2. IC 5-11-1-28 IS ADDED TO THE INDIANA CODE  
19 AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JULY  
20 1, 2015]: Sec. 28. (a) The bureau of motor vehicles (IC 9-14-1-1),  
21 office of the secretary of family and social services (IC 12-8-1.5-1),  
22 and department of state revenue (IC 6-8.1-2-1) shall each annually:

- 23 (1) have performed by an internal auditor:  
24 (A) an internal audit; and  
25 (B) a review of internal control systems;

26 of the agency; and

- 27 (2) have the internal auditor report the results of the internal  
28 audit and review to an examiner designated by the state  
29 examiner to receive the results.

30 (b) The examiner designated under subsection (a) shall, not later  
31 than September 1 of each year:

- 32 (1) compile a final report of the results of the internal audits  
33 and reviews performed and reported under subsection (a);  
34 and

- 35 (2) present the final report to a committee composed of the  
36 following:

- 37 (A) The governor or the governor's designee.  
38 (B) The auditor of state or the auditor's designee.  
39 (C) The chairperson of the audit committee, in an  
40 electronic format under IC 5-14-6.  
41 (D) The director of the office of management and budget  
42 or the director's designee.



1           **(c) The committee described in subsection (b)(2) shall, not later**  
2 **than October 1 of each year, submit a copy of the final report to**  
3 **the audit committee in an electronic format under IC 5-14-6.**

4           SECTION 3. IC 6-1.1-17-16.2, AS ADDED BY P.L.172-2011,  
5 SECTION 33, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
6 JULY 1, 2015]: Sec. 16.2. **(a)** The department of local government  
7 finance may not approve the budget of a taxing unit or a supplemental  
8 appropriation for a taxing unit until the taxing unit files an annual  
9 report under IC 5-11-1-4 or IC 5-11-13 for the preceding calendar year,  
10 unless the taxing unit did not exist as of March 1 of the calendar year  
11 preceding the ensuing calendar year by two (2) years. This section  
12 applies to a taxing unit that is the successor to another taxing unit or  
13 the result of a consolidation or merger of more than one (1) taxing unit,  
14 if an annual report under IC 5-11-1-4 or IC 5-11-13 has not been filed  
15 for each predecessor taxing unit.

16           **(b) This subsection applies after December 31, 2016. The**  
17 **department of local government finance may not approve the**  
18 **budget of a taxing unit or a supplemental appropriation for a**  
19 **taxing unit until the taxing unit certifies to the department of local**  
20 **government finance that the:**

21           **(1) training that is:**

22                   **(A) required by IC 5-11-1-27(f); and**

23                   **(B) applicable to the taxing unit;**

24           **has been completed; and**

25           **(2) certification required by IC 5-11-1-27(g) has occurred.**



## COMMITTEE REPORT

Mr. Speaker: Your Committee on Government and Regulatory Reform, to which was referred House Bill 1264, has had the same under consideration and begs leave to report the same back to the House with the recommendation that said bill be amended as follows:

Page 1, line 3, strike ""local government"".

Page 1, line 4, strike "means".

Page 1, line 4, delete "a".

Page 1, line 4, strike "county, city, town, or township." and insert **""legislative body" has the meaning set forth in IC 36-1-2-9.**

**(b) As used in this section, "political subdivision" has the meaning set forth in IC 5-11-10.5-1.**

**(c) As used in this section, "material" means a significant or consequential amount, as determined by the state examiner and approved by the audit committee."**

Page 1, line 5, strike "(b)" and insert **"(d)"**.

Page 1, line 10, strike "local governments," and insert **"political subdivisions,"**.

Page 2, between lines 3 and 4, begin a new paragraph and insert:

**"(e) The state board of accounts shall develop or designate approved personnel training materials to implement this section."**

Page 2, line 4, delete "(c)" and insert **"(f)"**.

Page 2, line 4, delete "local government" and insert **"political subdivision"**.

Page 2, line 9, delete "(d) The attorney who represents" and insert **"(g) The legislative body of"**.

Page 2, line 10, delete "state" and insert **"department of local government finance"**.

Page 2, line 11, delete "board of accounts".

Page 2, line 12, delete "(b)" and insert **"(d)"**.

Page 2, line 12, delete "local government." and insert **"political subdivision."**

Page 2, line 13, delete "(e)" and insert **"(h)"**.

Page 2, line 14, strike "local government" and insert **"political subdivision"**.

Page 2, line 15, delete "The" and insert **"For all material variances, losses, shortages, or thefts, the"**.

Page 2, line 28, delete "(f)" and insert **"(i)"**.

Page 2, line 31, delete "(e)(3)(B)." and insert **"(h)(3)(B)." .**

Page 2, line 32, delete "(g)" and insert **"(j)"**.

Page 2, line 40, delete "inspector general" and insert **"state board"**



of accounts".

Page 2, line 41, delete "local government." and insert "**political subdivision.**".

Page 2, delete line 42, begin a new paragraph and insert:

**"(k) If the attorney general institutes civil proceedings related to this section or under IC 5-11-5-1, the attorney general shall seek, in addition to the recovery of any funds misappropriated, diverted, or unaccounted for, restitution of:**

- (1) costs incurred by the state board of accounts; and**
- (2) all costs and reasonable attorney's fees incurred by the attorney general;**

**in connection with the civil proceedings."**

Page 3, delete lines 1 through 11, begin a new paragraph and insert:

**"SECTION 2. IC 5-11-1-28 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2015]: Sec. 28. (a) The bureau of motor vehicles (IC 9-14-1-1), office of the secretary of family and social services (IC 12-8-1.5-1), and department of state revenue (IC 6-8.1-2-1) shall each annually:**

**(1) have performed by an internal auditor:**

- (A) an internal audit; and**
  - (B) a review of internal control systems;**
- of the agency; and**

**(2) have the internal auditor report the results of the internal audit and review to an examiner designated by the state examiner to receive the results.**

**(b) The examiner designated under subsection (a) shall, not later than September 1 of each year:**

**(1) compile a final report of the results of the internal audits and reviews performed and reported under subsection (a); and**

**(2) present the final report to a committee composed of the following:**

- (A) The governor or the governor's designee.**
- (B) The auditor of state or the auditor's designee.**
- (C) The chairperson of the audit committee, in an electronic format under IC 5-14-6.**
- (D) The director of the office of management and budget or the director's designee.**

**(c) The committee described in subsection (b)(2) shall, not later than October 1 of each year, submit a copy of the final report to the audit committee in an electronic format under IC 5-14-6."**

Page 3, line 24, after "(b)" insert "**This subsection applies after**



**December 31, 2016."**

Page 3, line 29, delete "IC 5-11-1-27(c);" and insert **"IC 5-11-1-27(f);"**.

Page 3, line 32, delete "IC 5-11-1-27(d)" and insert **"IC 5-11-1-27(g)"**.

Renumber all SECTIONS consecutively.

and when so amended that said bill do pass.

(Reference is to HB 1264 as introduced.)

LUCAS

Committee Vote: yeas 11, nays 0.

