

Date: May 28, 2002
Bulletin 2002-004

AUDITOR OF STATE BULLETIN

TO: CITY AUDITORS
COUNTY AUDITORS
TOWNSHIP CLERKS
VILLAGE CLERKS
COUNTY ENGINEERS
INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: PUBLIC WORKS COMMISSIONS INFRASTRUCTURE PROJECT
ACCOUNTING (ISSUE 2 MONEY)

The purpose of this advisory bulletin is to inform you of the accounting treatment for infrastructure projects funded through the Ohio Public Works Commission (OPWC). This bulletin updates and combines the guidance provided in prior bulletins on State Issue 2 grants (MAS Bulletin 89-17) and the retainage on contracts (MAS Bulletin 89-11).

A - Establishment of Fund(s)

All local governments participating in Issue 2 Funds (single or multi-project grant) must, for each project awarded, establish a capital projects fund to account for both the Issue 2 monies and local matching funds. It is not necessary to obtain authorization from the Auditor of State to establish the fund(s) because the authority exists under Section 5705.09 of the Ohio Revised Code. The purpose of the fund is to account for the related revenues and expenditures to the extent the local government has received benefit from the project.

The appropriate fund numbers are:	County	Assigned by County
	City	Assigned by City
	Township	14
	Township UAN	4401-4499
	Village	D1
	Village UAN	4901-4499

B - Local Government Matching Requirement

The local governments matching requirement may be satisfied with note or bond proceeds, loans, other grants designated for the same purpose, monies available from other funds of the local government, or labor, materials and equipment that will be contributed to the project by the local government.

In a case where monies available from other funds (i.e., General Fund) will be used to meet matching requirements, the local government shall transfer these monies, providing statutory authority exists for the transfer of the monies, to the capital projects fund. If the authority does not exist for the transfer of monies to the capital projects fund, (i.e., gas

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tax, motor vehicle registration fees, street construction, road and bridge funds) then the local governments shall appropriate and expend its matching requirement directly from the other fund if lawfully permitted. It is the local government's responsibility to establish the appropriate account codes to segregate these expenditures from the other expenditures of the fund. Segregation of these expenditures is essential in demonstrating compliance with the matching requirement.

In a case where the local government has approval to contribute labor, materials and equipment, or engineering costs to meet matching requirements, all efforts should be made to record the costs in the project fund. This situation may require interfund billings.

C - Certificate of Estimated Resources and Appropriations

The local government shall include in its official or amended certificate of estimated resources the amount of Issue 2 monies anticipated to be received into the project fund during the fiscal year, along with its matching requirements, if appropriate. The fund appropriations should include the amount necessary to meet the obligations to be incurred during the fiscal year. If the project is not expected to be completed in the current year, the remainder of the project must be appropriated immediately in the subsequent year(s).

In situations when the grant or loan will be received after the expenditures have been incurred, it is possible that the local government will have appropriated an amount in one fiscal year that is in excess of the amount reflected as available on the amended certificate of estimated resources. This situation will not constitute a noncompliance citation during an audit. This approach is only acceptable when the eventual receipt of the resources to pay for the full amount of the contract is certain, such as when the money will be coming from the State or Federal government based on an approved grant.

D - Recording of Issue 2 Monies

The OPWC will make payments to the contractor(s) for its share based on invoices submitted by the fiscal officer or to the local government as a reimbursement. For payments made to the contractor, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the capital projects fund equal to the amount disbursed by the OPWC.

E - Multi-Project Grants

In situations where one local government agrees to act as fiscal agent for a multi-project grant, the fiscal agent should establish an agency fund for the collection of participating subdivisions' matching shares, and the subsequent payments to the contractors, if the

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agreement between the subdivisions calls for the collection of matching shares. The project manager, chief fiscal officer and chief executive officer designated in the grant agreement are responsible for maintaining a complete set of records to account for the complete project, including notification to each participating subdivision of revenues and expenditures it should post to its own capital projects fund, and the basis of any proration used. In order to accomplish this, it will be necessary to obtain either engineer or contractor cooperation to determine which subdivision(s) benefit from each invoice, and the respective amounts.

F - Accounting for Project Receipts and Expenditures Accurately

Each local government participating in a multi-project grant (one grant awarded to a group of local governments) needs to be able to identify the project activity related to their own government. Unless this information is provided to the local government by the project manager, fiscal officer or other appropriate parties, the accounting records will not accurately reflect the local government's portion of the project. It will also be necessary for each participating local government to receive this information on a timely basis. Receiving information on a timely basis will enable the local government to record the activity in the proper accounting period and will facilitate the preparation of accurate financial reports.

G - Retainage Requirements

Section 153.13 of the Revised Code establishes that for contracts of \$15,000 or greater, the amount of the retainage is to be withheld from the first 50 percent of the payments made. When the invoice which would put the project at or over 50 percent completed is processed, the total contracted retainage amount which has been retained (8 percent from the first 50 percent of payments) should be placed in escrow (in a separate bank account or otherwise in conjunction with the provisions of Section 153.63 of the Revised Code).

Please note that in regard to the fund to be used, the capital projects fund can and should account for payments and continue to hold the retainage. There is no need for a separate fund. Rather, in the case of complying with Section 153.63 of the Revised Code, the emphasis should be in meeting the escrow requirements.

As an example, if we assume the capital projects fund is being used and a \$100,000 contract exists with a 4 percent retainage, (8 percent of the payments made up to the 50 percent point as described in Sections 153.12 and 153.14 of the Revised Code), one could track through the escrow as follows:

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Invoice Received and Payment Requested		Amount Paid	Amount Retained No Escrow	Amount in Escrow
#1	\$20,000	\$18,400	\$1,600	-0-
2	20,000	18,400	1,600	-0-
3*	20,000	19,200	-0-	\$4,000
4	20,000	20,000	-0-	4,000
5	20,000	20,000	-0-	4,000

* At the third payment, the 50 percent completed point was reached and the \$3,200 retained from the first 2 payments, plus the \$800 from the third payment was placed in escrow. Please note that the total retainage of \$4,000 was reached from the first 50 percent of the payments. At the 50 percent completed point, all retainage was placed in escrow.

Turning our attention to the fund involved, we find the following:

Invoice Received and Payment Requested		Fund Balance	Balance in Regular Bank Account	Balance in Escrow Account
Beginning Balance		\$100,000	\$100,000	-0-
#1	\$20,000	81,600	81,600	-0-
2	20,000	63,200	63,200	-0-
3**	20,000	44,000	40,000	\$4,000
4	20,000	24,000	20,000	4,000
5	20,000	4,000	-0-	4,000
Escrow is paid		-0-	-0-	-0-

** The 50 percent completed point is reached. The governmental entity should obtain a monthly bank statement or other monthly accounting of the escrowed money from the escrow agent to use as a reconciliation item in the monthly cash reconciliation.