From the 2019 OCS Implementation Guide:

Exhibit 3 – Compliance ACE Form

**Assessment of the Compliance Controls’ Environment**

**Note:** This exhibit includes control environment points of focus specific to the OCS.

**Instructions for Using the OCS Compliance ACE Form**

* Illustrative points of focus are given for OCS Chapter 1. The auditor should not answer 'Yes' or 'No' to the points of focus. Rather, the auditor should comment on each area, using the points of focus as further guidance where appropriate, basing comments on information available from prior years' audits, inquiries of individuals inside and outside the organization, knowledge of factors outside the government that affect its activities, observation of circumstances that are known or are understood to exist within the government, and, in some circumstances, inspection of documents.
* The areas for assessment and illustrative points of focus in the ACE are not equally relevant to all engagements, and the significance of any particular area or point of focus varies with the government. Thus, the auditor should judge the applicability and importance of each in the context of the engagement.
* In assessing the control environment, the auditor should recognize that neither the areas for assessment nor the illustrative points of focus are necessarily all-inclusive. The auditor may encounter matters affecting the control environment other than those addressed by the ACE. The auditor should document those matters and assess their effect on the control environment.
* In assessing the control environment, the auditor should look beyond the form of control measures and management actions and should concentrate on their substance. An environment may appear to be favorable but in reality may not be. For instance, a system may provide adequate reports for the governing board or senior management, but if the information is not analyzed and acted on, the system does not contribute to the control environment. Similarly, a government may establish appropriate policies; however, to be effective, they should be enforced by management. For example, although a government may have a formal code of conduct, management may have a record of condoning actions that violate it. By not reprimanding such actions, management sends a clear message undermining the code of conduct.

**Audit Implications**

* After assessing each area, the auditor should consider the audit implications of any circumstances coming to his or her attention that may affect the audit strategy and audit program, or that may represent a matter for which we can offer a recommendation for improvement.

**Application to Small and Mid-sized Entities**

* Small and mid-sized entities may implement the control environment areas differently than larger entities. For example, smaller entities might not have a written code of conduct but instead, develop a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example. However, the lack of a written code of conduct may not affect the auditor’s assessment of control risk.

|  |  |
| --- | --- |
| **Budgetary (OCS Chapter 1 Section A)** | |
| **Area for Assessment** | **Comments** |
| The following factors may influence the auditor's assessment of risk of significant misstatements of budgetary presentations:  Ohio Rev. Code Chapter 5705 codifies an annual budget process designed to prevent fund cash deficits. It prescribes levels of budgetary control, and a basis for recognizing budgetary receipts and budgetary expenditure, which can affect the fair presentation of budgetary statements and disclosures.  *Consider for example, the following points of focus:*   1. *Existence of a budgetary monitoring system and compliance function (This is part of* ***monitoring*** *more than the control environment, but we have listed it here because of its importance and interaction with the control environment.)* 2. *The effectiveness of the budget process (i.e. segregation of duties for budget preparation, adoption, execution and reporting).*    * *The level of detail (e.g. legal level of control) and suitably knowledgeable and experienced personnel (such as operating line management).*   *- The effectiveness of monitoring performance with respect to:*  *A commitment by those charged with governance and management to comply with budgetary laws.*  *indication and timeliness of corrective actions,*  *An accounting system that integrates budgetary accounts to provide continuous information regarding available appropriations and estimated resources not yet received.*  Note: The AICPA’s State & Local Government Audit Guide, 11.24 cautions the auditor to consider whether the government uses its budget to control spending or instead, uses spending to establish (i.e. amend) the budget. Many governments do the latter, in which case analytical procedures relating to the budget may not be very useful audit support for financial position and activity statement assertions. |  |
| **Audit implications and/or management comments**: | |

| **Debt (OCS Chapter 1 Section C)** | |
| --- | --- |
| **Area for Assessment** | **Comments** |
| **Points of Focus (Debt)**   1. *Existence of a debt monitoring system and compliance function (This is part of* ***monitoring*** *more than the control environment, but we have listed it here because of its importance and interaction with the control environment.)* 2. *Governing authority's and management's involvement in the internal control structure to assure compliance with debt laws, contracts and regulation such as covenant requirements and 17 C.F.R.* § *240.15c2-12* 3. *Willingness to use bond counsel or other specialists (e.g. arbitrage specialists) when issuing debt.* 4. *Accounting system suitably designed to comply with any requirements to separately account for debt proceeds or debt service payments.* |  |
| **Audit implications and/or management comments**: | | |

|  |  |
| --- | --- |
| **Accounting and Reporting (OCS Chapter 1 Section D)** | |
| **Area for Assessment** | **Comments** |
| **Points of Focus**   1. *Existence of a monitoring system and compliance function (This is part of* ***monitoring*** *more than the control environment, but we have listed it here because of its importance and interaction with the control environment.)* 2. *Accounting system suitably designed to accommodate the reporting requirements in Chapter 2 applicable to the auditee.* |  |
| Audit implications and/or management comments: | | |

|  |  |
| --- | --- |
| **Other Potentially Direct and Material Laws and Regulations (OCS Chapter 1 Section F)** | |
| **Area for Assessment** | **Comments** |
| **Points of Focus**   1. *Existence of an appropriate monitoring system and compliance function. (This is part of* ***monitoring*** *more than the control environment, but we have listed it here because of its importance and interaction with the control environment.)* 2. *Accounting system suitably designed to provide information when needed, such as information related to insurance claims, landfill costs, especially closure or post closure costs.* 3. *Suitable systems and procedures for collecting other financially significant information reliably, such as landfill usage, student attendance statistics.* 4. *A commitment by school management and those charged with their governance to obtain accurate ADM student counts.* |  |
| **Audit implications and/or management comments**: | |