



# Combined IPA Conference

August 16, 2013

Hilton Columbus at Easton  
3900 Chagrin Drive  
Columbus, Ohio 43219

**2013 Combined IPA Conference Agenda  
Friday, August 16, 2013**

**7:30 - 8:00 am**

**Registration**

**8:00 - 8:15 am**

**Conference Welcome/Housekeeping Comments**

**8:15 - 9:05 am**

A Single Audit Update and Proposed Changes  
Roy Lydic, Schneider Downs & Company, Inc.

**9:05 - 9:55 am**

GASB Update  
Joe Heffernan, Plante Moran

**9:55 - 10:10am**

**Break**

**10:10 - 11:00 am**

Prevention – An Approach To Business Fraud Risk  
Kevin Saionzkowski, Auditor of State's Office

**11:00 - 11:50 am**

Auditor of State IPA Contracting Update  
Debbie Liddil & Leanna Abele, Auditor of State's Office

**11:50 am - 12:50 pm**

**Lunch**

**1:00 - 1:50 pm**

HUD focuses on "Financial Ratio Analysis" and VMS Data  
Jeanette Addington, JC&Co. CPA

**2:00 - 2:50 pm**

The Changing Face of COSO and Its Impact On Your Control Environment  
Don Owens, Schneider Downs & Co., Inc.

**2:50 - 3:00 pm**

**Break**

**3:00 - 3:50 pm**

Increasing Accountability over Athletic and Tournament Events  
Jeff Jordan, Ohio High School Athletic Association

**3:50 pm**

**Adjourn and Collect Certificates**



## 2013 COMBINED IPA CONFERENCE COURSE DESCRIPTIONS

### **Single Audit Update and Proposed Changes– Roy Lydic**

This course will provide a high-level overview of recent developments affecting OMB Circular A-133 Audits. Areas to be covered include

- 1.) Common Single Audit Problems
- 2.) Assessing Material Noncompliance
- 3.) Reporting Requirements;
- 4.) Common Audit Deficiencies
- 5.) Proposed Single Audit Revisions

### **GASB Update – Joe Heffernan**

This session will cover the more significant pronouncements that are being implemented this year and in the future. Significant changes in the current year will include a redefinition of the financial reporting entity, and deferred inflows/ outflows; this session will also cover what you need to know about the new Pension reporting changes, including the impact on cost-sharing employers (OPERS).

### **Prevention – An Approach To Business Fraud Risk– Kevin Saionzkowski**

Participants will learn the importance of prevention in combating business fraud risk, operational areas to direct prevention efforts, and components of a fraud prevention program.

### **Auditor of State IPA Contracting Update – Debbie Liddil & Leanna Abele**

This session focuses on current and upcoming updates and modifications to the Auditor of State's IPA contracting process and other frequently asked questions.

### **HUD focuses on “Financial Ratio Analysis”– Jeanette Addington**

Jeanette will provide practical applications regarding the latest financial ratio standards set by HUD. These changes will impact housing authority funding currently and in the future. She will give an overview of the FDS to be audited that determine the ratio outcomes and will provide suggestions that auditors can give their clients as it relates to the ratio standards.

## **The Changing Face of COSO and Its Impact On Your Control Environment – Don Owen**

COSO, being the internal control framework of choice for U.S. companies, has been significantly expanded through the recently revised COSO Internal Control – Integrated Framework issued in May 2013. The revised framework, recognizing business is becoming ever more complex and technology driven, calls for a greater discipline in implementing the five core components of the framework (control environment, risk assessment, control activities, information and communication and monitoring activities). For those businesses well-disciplined in the application of COSO, the integration of the newly promoted 17 underlying principles will not pose significant challenges. For others that adopted a "COSO Lite" approach, the application of the revised framework will aid in exposing weaknesses in both the current internal control structure and control practices, and provide a road map to remediate such weaknesses.

**Objectives:** Participants will be introduced to the revised framework and what challenges maybe faced incorporating the 17 principles to the existing control environment. Further, participants will instructed on ways to identify if additional control considerations need to be addressed as it relates to the principles.

## **Increasing Accountability over Athletic and Tournament Events – Jeff Jordan**

A discussion on the accountability changes for regular season and tournament athletic and non-athletic events. We will discuss procedures developed jointly by school treasurers, athletic directors, the Auditor of State and the Ohio High School Athletic Association to improve accountability for funds collected at school events.



## 2013 COMBINED IPA CONFERENCE SPEAKERS

### **ROBERT HINKLE**

Bob Hinkle is the Chief Deputy Auditor for the Ohio Auditor of State Dave Yost's office. His career with the Ohio Auditor of State's office started in 1984 as an Assistant Auditor. Bob knows the workings and responsibilities of the office as he has completed audits at the staff level and every management level, to being appointed Chief Deputy Auditor in March 2006. In his 28 plus years of service with the Auditor of State's office, Bob has worked with every type of local government on accounting and auditing issues.

Bob is a Certified Public Accountant and Certified Government Financial Manager. He is a member of the AICPA, OSCP, AGA and currently is a member and President of the Ohio GFOA. A graduate of Mount Vernon Nazarene University, he resides in Mount Gilead, Ohio with his wife, Kelly and their three children, Lincey, Garrison, and Alexis.

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### **LEANNA ABELE**

Leanna Abele is the Assistant Deputy Auditor of Operations in the Deputy Auditor Section of Auditor of State Dave Yost's Office. The Deputy Auditor Section oversees the operations of the financial audit, Local Government Services, Special Audit, the Center for Audit Excellence, and the Medicaid Contract Audit sections at the AOS. Prior to assuming her role in the Deputy Auditor Section, she served as the Assistant Chief Auditor for the office's Quality Assurance Section for 16 years of her 26+ year career. In that role, she supervised the review of reports and working papers for audits contracted with independent public accounting firms. Leanna is a Certified Public Accountant and a Certified Government Financial Manager.

### **JEANETTE ADDINGTON**

Jeanette has been with JC & Co. since 1985. She currently oversees the Accounting and Auditing division of the firm and focuses the majority of her time on HUD related client engagements. The HUD related services she and her company provide consist of the following:

- Performance of year- end audits
- Monthly fee accounting services- CFO duties
- Assisting with year- end GAAP conversions
- Preparation of budgets
- Forecasts and projections
- Assistance with financial statement and MDA preparations for the auditors
- FDS submissions
- Training housing authority staff
- Creation of policies and procedures manuals
- Board training meetings

### **JOE HEFFERNAN**

Joe Heffernan is a Partner with Plante & Moran (an audit firm serving Ohio, Michigan & Illinois). He has oversight for the professional standards for Plante & Moran's public sector. Some of Joe's current activities include:

- Member of the American Institute of CPA's State & Local Government Expert Panel;
- Founding member of the AICPA's Governmental Audit Quality Center, serving on the Executive Committee
- Past member of the AICPA's Governmental Technical Sub-committee (in the Ethics Division);
- Member of the Michigan Committee on Governmental Accounting and Auditing (the advisory group to the State of Michigan Local Audit & Finance Division)

### **JEFF JORDAN**

Jeff was selected as the first Chief Financial Officer of the Ohio High School Athletic Association on August 1, 2011. Prior to that selection, he served as the State Superintendent of Public Instruction's *ex-officio* representative to the Board of Directors from 2001 to 2011. From January 2006 to June 2011, he served with the Ohio Department of Education as the Director of Finance Program Services, where he was responsible for providing specialized expertise in school finance for Ohio's nearly 2000 traditional school districts, community schools, non-public schools and other educational entities as well as managing the oversight of districts in fiscal caution, watch and emergency. During his tenure, 38 school districts recovered from financial distress and were terminated from fiscal emergency, watch or caution. From 2001 to 2010, Jeff was responsible for the Office of Federal and State Grants Management, the division responsible for financial management of over \$1 billion in Federal and state grant funds each year and was the co-developer of the Comprehensive Continuous Improvement Plan (CCIP) used by Ohio's school districts to plan program resources and obtain grant funding for educational programs. Prior to employment at the Department of Education, he served with the Ohio Auditor of State from 1995 to 2001 as an Assistant Auditor, Auditor-in-Charge, and Deputy Auditor managing audits of the Departments of Education and Taxation, Rehabilitation Services Commission, Ohio Air Quality Development Authority and the Treasurer of State.

Jeff graduated from Galion Northmor High School in 1990 as class salutatorian. He received his bachelor's degree in business administration from The Ohio State University in 1995, majoring in accounting. During his time at the university, Jeff was a member and squad leader in The Ohio State University Marching Band and member of Phi Eta Sigma/Alpha Lambda Delta Freshman Honoraries and university athletic bands as well as an intramural softball umpire and intramural basketball and flag football official.

Jeff served as the first two time president of The Ohio State University Marching Band (TBDBITL) Alumni Club from 2007 to 2009 after serving as the Club's treasurer and vice president. He will be elected as the TBDBITL Alumni Club's secretary in September 2013, becoming the first person in club history to serve in all officer roles for the organization. Additionally, in February 2012, he began a 5 year term as a member of The Ohio State University Alumni Association Board of Directors. He currently serves as the audit subcommittee chair of that board and member of the finance, diversity and awards committees. Additionally, he became an OHSAA registered basketball official in 1991 and officiated the OHSAA Girls State Basketball Tournament in 2008. Since 1991, Jeff has served as a Judicial and State Government Section Consultant and Counselor for the American Legion Buckeye Boys' State program, a non-partisan government and leadership workshop for high school seniors. He has also been a member of the Government

Finance Officers Association, the Association of Education Federal Financial Administrators, Association of Government Accountants, Institute of Internal Auditors and an affiliate member of the Ohio Society of Certified Public Accountants. Jeff was named as a recipient of the William Oxley Thompson Award by The Ohio State University Alumni Association for distinctive career achievement and civic involvement prior to age 36 in 2007 and as the Elvin Donaldson Most Inspirational Alumni Band Member in 2009.

Jeff resides near Mount Gilead with his wife Robin and sons Myles (9) and Chase (5).

### **DEBBIE LIDDIL**

Debbie is the Chief Auditor (CA) for the Auditor of State's (AOS) State Region. She has been with the AOS since 1985 and has risen through the ranks of the AOS serving state agency clients. She is experienced in governmental accounting, auditing, and reporting, with a focus on single audits.

As the State Region's CA, Debbie provides guidance to the Region's managers and staff, consults on audit approach for the State of Ohio and related clients, helps ensure practice aids and procedures are updated and reflect current standards, and reviews audit findings and reports. Debbie is also responsible for contracting with IPA's related to State Region clients and serves on the IPA process review committee for the AOS.

Debbie has a Bachelors of Science Degree in Accounting from Franklin University and is a CPA. Debbie is a member of the Association of Government Accountants (AGA), served as the AGA Central Ohio Chapter's Education Committee Co-Chair for two years, and represents AGA on the Accounting Advisory Board for Franklin University.

### **ROY LYDIC**

Roy has more than 26 years of experience in public accounting. He has committed the majority of his career to serving and advising nonprofit organizations and possesses extensive experience with the operational and compliance aspects of federal awards.

He has provided services ranging from innovative budgetary planning, assessment of program performance, development of operational policies and procedures, improving fiscal operations, and internal control matters. Roy is also very experienced in interpreting and applying complex grant reporting requirements, implementing financial reporting standards, and developing effective corrective action plans in response to reviews by funders.

Roy is a member of both the Nonprofit and Government Industry Groups and has recently served as full-time interim Chief Financial Officer for a large community action agency that was undergoing leadership transition.

- Member - The American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants
- Rotary Club of Columbus
- Board of Trustees - Mental Health America of Franklin County
- Member - Association of Government Accountants

B.S. - Accounting, The Ohio State University

### **DONALD OWENS**

Don is a shareholder in Schneider Downs' Internal Audit and Risk Advisory Services practice. His career spans 29 years in the profession. Don delivers internal audit, Sarbanes-Oxley, forensic and various other risk mitigation services (enterprise-wide risk and fraud risk assessments, process improvement reviews, GRC implementations, etc.) to clients including government, non-profit, and public and private entities. In addition to client service, Don frequently presents and conducts training seminars on topics addressing effective risk mitigation for organizations such as The Institute of Internal Auditors, Auditor of State, and Ohio Society of CPAs, to name a few.

Prior to joining Schneider Downs, Don worked for a regional home builder where he headed its corporate risk management function and had direct responsibility for evaluating all business unit practices. For several years he was with the advisory services practice of PricewaterhouseCoopers where, having risen to director in the practice, had responsibility for managing national and multinational internal audit engagements. Don is a graduate of California University of PA where he graduated with honors and received his degree in Accounting and is very active in several professional organizations, including:

- Member, Past President and Current Board Trustee – Central Ohio Chapter of The Institute of Internal Auditors
- Member - American and Pennsylvania Institutes of Certified Public Accountants,
- Member - The Ohio Society of Certified Public Accountants
- Member - Risk Management Association
- Member - Association of Certified Fraud Examiners
- Member - Bank Administration Institute

### **KEVIN SAIONZKOWSKI**

Currently, Kevin is the Chief Auditor of the Special Audit Section for Auditor of State Dave Yost. He has served as Chief Auditor for the past 12 years. The Special Audit Section consists of supervisors and managers responsible for conducting limited scope fraud and investigative examinations of state and local government subdivisions to investigate allegations of fraud, theft, and/or misappropriation involving public funds. Kevin also served one year as the Assistant Chief Auditor of the Special Audit Section prior to becoming the Section's Chief Auditor. Kevin began his career at the Auditor of State's Office after graduating from Capital University in 1992 with a B.A. in accounting. While at the Auditor of State's Office, Kevin has also been a financial statement auditor and audit manager, and has worked in the Office's Quality Assurance Section. Kevin has been a licensed Certified Public Accountant since 1997 and obtained the Certified Fraud Examiner credential in January 2007. Kevin has presented on fraud related topics at numerous local and state-wide gatherings of government officials and employees.




## Single Audits - Common Findings and Deficiencies

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Audit Shareholder  
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### Agenda

- Common Single Audit Problems
- Assessing Material Noncompliance
- Reporting Requirements
- Common Audit Deficiencies
- Proposed Single Audit Revisions

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### Common Single Audit Problems

Summary of reported findings over last four years:

Year	Total Number of DCFs Submitted	Total Number of DCFs with Findings	Percentage with Findings Reports
2012	33,101	6,329	19%
2011	45,569	10,431	23%
2010	46,057	11,342	25%
2009	41,613	9,523	23%

\* Information obtained from Federal Audit Clearinghouse, June 2013

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### Common Single Audit Problems (Cont.)

- Compliance requirements that cause the most reported findings:
  - Allowable Costs / Cost Principals (B)
  - Reporting (L)
  - Other (P)
  - Procurement, Suspension/Debarment (I)
  - Equipment/Real Prop. Mgmt. (F)
  - Special Tests & Provisions (N)
  - Allowable Activities (A)
  - Sub recipient Monitoring (M)

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### Common Single Audit Problems (Cont.)

- Common financial statement findings reported:
  - Auditee not able to prepare GAAP financial statements
  - Prior period restatement
  - Fraud committed by member of management
  - Material audit adjustments
- Common federal award findings and questioned costs
  - Failure to prepare accurate and/or complete SEFA
  - Unallowable costs identified
  - Grant progress reports not filed on time
  - Insufficient monitoring of sub-recipients
  - Lack of competitive bidding documentation
  - Program serves ineligible participants
  - Student financial aid – eligibility and return of funds due to student withdrawals most common

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### Assessing Material Noncompliance

- First, a definition:

A material instance of noncompliance is...

- a failure to follow requirements, or a violation of prohibitions, established by law, regulation, contract or grant agreement that results in an aggregation of noncompliance (that is, the auditor's best estimate of the overall noncompliance) that is material to the affected program.

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### Assessing Material Noncompliance (Cont.)

- Various levels of materiality
  - Financial Statement Audit
    - In relation to the financial statements being audited
  - Compliance Audit
    - In relation to each individual major program
  - Reporting Circular A-133 Audit Findings
    - In relation to a type of compliance requirement or audit objective
    - Generally lower than other materiality levels
    - Specified by Circular A-133
  - Opinion on Compliance
    - Considered in terms of compliance audit materiality (individual major program)

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### Assessing Material Noncompliance (Cont.)

- Calculating materiality for compliance audit
  - Materiality is applied to each major program individually
  - Typically a percentage of the major program expenditures
- Materiality factors
  - Nature of compliance requirements
  - Nature and frequency of noncompliance identified
  - Qualitative considerations
- What is material to the affected program?
  - Noncompliance could result in denied reimbursement, refund of federal money, reduction of future funding, etc.
- Opinion on compliance is on EACH major program

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### Assessing Material Noncompliance (Cont.)

Noncompliance material to type of compliance requirement for the major program?

Report in the SFQC

Aggregated noncompliance material to the major program?

Modify the opinion

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### Reporting Requirements

- Opinion on financial statements and opinion on whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements as a whole
- Report on internal control related to the financials statements and on the internal control related to major programs
- Opinion on compliance that has a direct and material effect on each major program
- Schedule of findings and questioned costs
- Data collection form

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### Reporting Requirements (Cont.)

- Schedule of findings and questioned costs
  - Section I – Summary of Auditors' Results
    - Financial statement
    - Federal awards
    - Identification of major programs
  - Section II – Financial Statement Findings (under Government Standards)
  - Section III – Federal Award Findings and Questioned Costs (under A-133)

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### Reporting Requirements (Cont.)

- The following are considered findings and questioned costs:

Significant deficiencies and material weaknesses	Material noncompliance related to a major program	Known and likely questioned costs over \$10,000
Audit report is other than unqualified	Known fraud affecting a federal award	Misrepresentation of status of prior audit findings

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### Reporting Requirements (Cont.)

Reporting requirements for findings and questioned costs (PPC form GSA-CX-13.1):

- Conditions found
- Criteria or specific requirements upon which the finding is based
- Effects or possible effects of the condition
- Identification of questioned costs and how they were computed (when applicable)
- Cause of the condition
- Information to provide proper perspective for judging the finding
- Recommendations to fix the deficiency
- Views of the responsible officials

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### Reporting Requirements (Cont.)

- Additional schedule of findings and questioned costs items:
  - SFQC should include all findings required to be reported under A-133
  - Separate communication (MLC's) may not be used in lieu of reporting them as findings
  - Audit findings (for example, internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue should be presented as one finding. Where practical, audit findings should be organized by federal agency or pass-through entity.
  - Audit findings that relate to both the financial statements and the federal awards should be reported in both sections of the schedule (summary and reference to other is permitted)

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### Common Audit Deficiencies

The following are frequent violations reported to AICPA Professional Ethics Division

1. Failure to accurately identify and test all major programs
  - Failure to combine CFDA's
  - Improper clustering
  - Using an improper threshold
    - \$500,000 vs. \$300,000
    - Making adjustments for final balances
  - Improper low risk assessment
  - Failure to consider loans in major program assessment
  - Failure to audit amounts on the SEFA
  - Two-year look-back requirements
  - ARRA impact
  - Changes between preliminary and final SEFA
  - Reporting on SFQC

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**Common Audit Deficiencies (Cont.)**

2. Failure to meet percentage coverage rules
  - Improper identification of auditee as low-risk
  - Changes between preliminary and final SEFA
3. Auditors' report language
  - Changes this year! (Clarified standards and 2011 Yellow Book)
  - Utilize examples in GAS/A-133 Audit Guide – DO NOT ROLLFORWARD PY!
  - Appropriate references to findings
  - Material weakness, significant deficiency language
  - SFQC needs to match report language

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**Common Audit Deficiencies (Cont.)**

4. SEFA not clearly indicating federal expenditures for each federal program
  - Avoid including non-federal awards, or when required, ensure they are segregated
  - Subtotal CFDA numbers
  - Subtotal clusters
5. SEFA omitted notes to the schedule
  - Minimum expected:
    - Reporting entity
    - Basis of accounting
  - Other potential footnotes:
    - Noncash awards, if not in SEFA
    - Direct, on-behalf payments
    - Commitment/contingency
    - Subsequent events
    - Information required by pass-through agencies

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**Common Audit Deficiencies (Cont.)**

6. SEFA does not contain required information
  - CFDA number required (or other identifying number)
  - Federal agency
  - Pass-through entity identification
  - Grant identifying number assigned by pass-through entity
7. Schedule of findings and questioned costs
  - Incorrect dollar threshold reported on the SFQC
    - Incorrect calculation of type A threshold
    - Important to recalculate if SEFA adjustments occur
  - Failure to properly identify major programs
  - Findings do not include all the required elements (criteria, condition, cause, effect)

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**Common Audit Deficiencies (Cont.)**

8. Sampling and testing

- Variety of sampling units
- Need to develop and perform procedures sufficient to conclude the population is inclusive of all transactions for the specific audit objective
- Proceed with caution when using the same sample for testing more than one audit objective

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**Proposed Single Audit Revisions**

The OMB issued for comment, "Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards."

- Increased efficiency and effectiveness of federal programs
- Eliminating unnecessary and duplicative requirements
- Achieving better outcomes at lower costs
- Certain OMB circulars streamlined into one document that would consolidate the cost principal with limited variations by type of entity

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**Proposed Single Audit Revisions (Cont.)**

- Single Audit Threshold
  - Increase audit threshold from \$500,000 to \$750,000
  - Would scope out approximately 6,300 organizations
    - Roughly 14% of DCF's submitted to the FAC in 2011
  - Reductions in dollars covered of approximately \$3.9 billion, or less than 1%

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### Proposed Single Audit Revisions (Cont.)

- **Type A Threshold**
  - Current minimum threshold for type A program is \$300,000
  - Proposed increase to \$500,000
- **Large Loan Programs**
  - Modified guidance to clarify treatment of large loan programs when determining type A programs
  - Clusters are considered a loan program if 50% or more of expenditures within the cluster are made up of individual loan programs
- **High-Risk Type A Programs**
  - Deemed to be high risk if, in 1 of 2 most recent periods had any of the following:
    - Other than an unqualified opinion
    - Material weakness in internal control
    - Know or likely questioned costs greater than 5% of total program expenditures

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### Proposed Single Audit Revisions (Cont.)

- **High-Risk Type B Programs**
  - Perform risk assessment on type B programs until high-risk type B programs have been identified up to 25% of low-risk type A programs
- **Percentage of Coverage Requirements (total \$'s included in the single audit)**

Type of Auditee	Current	Proposed
Low Risk	25%	20%
Not Low Risk	50%	40%
- **Low-Risk Auditee Determination**
  - No going concern opinion
  - Other than an unqualified opinion on compliance

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### Proposed Single Audit Revisions (Cont.)

- **Streamlining Compliance Requirements**
  - Currently 14 types of compliance requirements (A – N)
  - Proposed reduction to 6 types as follows:
    - Activities Allowed or Unallowed and Allowance Costs/Costs Principals
    - Cash Management
    - Eligibility
    - Reporting
    - Subrecipient Monitoring
    - Special Tests & Provisions
- **Audit Findings**
  - More detailed information reported
  - Questioned cost threshold increased from \$10,000 to \$25,000

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**SCHMIDT DOWNS**



### Proposed Single Audit Revisions (Cont.)

- Status and Next Steps
  - Original draft issued from comment on January 31, 2013
  - AICPA issued comments on June 2, 2013
    - Overall, expressed support
    - Still included a large number of comments
  - Effective date and implementation at least one year after final ruling
  - \$750,000 threshold could have an immediate effective date with other changes to follow

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**SCHMIDT DOWNS**



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### Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
61- The Financial Reporting Entity; Omnibus	YBA 6/15/12	Amends GASB no. 14 and 34 – Component units	Potentially significant
62- Codification of Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	YBA 12/15/11	Incorporates FASB statements, interpretations, APB Opinions and ARBs into GASB literature	Not significant
63- Net Position; Deferred Inflows/Outflows	YBA 12/15/11	Changes the format of the financial statements	Significant
65- Items previously reported as Assets and Liabilities	YBA 12/15/12	Properly classify certain items as deferred outflows and inflows of resources	Not significant
66- Technical corrections 2012	YBA 12/15/12	Resolves conflicting accounting and financial reporting guidance that could diminish consistency	Not significant

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### Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
67- Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25	YBA 6/15/13	Pension plan accounting and reporting (NOT OPEB)	Not significant to employers
68- Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	YBA 6/15/14	Participant employers in pension plans (NOT OPEB) – recording the net pension liability (unfunded portion) and expands footnote and RSI reporting	Significant
69- Government Combinations and Disposals of Government Operations	YBA 12/15/13	Merger - Use of carrying values to measure the assets and liabilities. Acquisition - Assets acquired and liabilities assumed generally to be valued at their acquisition values.	Not significant
70 – Nonexchange financial guarantees	YBA 6/15/13	Recognize a liability when likely you will perform on a guarantee	Could be significant

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Significant Standards

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GASB 61 – the Financial Reporting Entity Omnibus

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**GASB 61 – Reporting Entity Omnibus**  
Effective: Years beginning after 6/15/2012  
Translation: 6/30/13, 9/30/13, 12/31/13 and 3/31/14 year-end audits  
Purpose: Amends GASB 14, 34 and 39  
Impacts:  
Which entities to include/exclude  
How to include (blend, discretely present, footnote)

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## GASB 61: Which Entities to Include (changes in red bold)

1. We appoint a voting majority of the governing body, and we either:
  - a) Can impose our will; or
  - b) There is a financial benefit or burden
2. The potential component unit (PCU) is both:
  - a) fiscally dependent on us; **and**
  - b) **there is a financial benefit or burden**
3. It would be misleading to exclude
  - a) GASB 39 tells us it would be misleading to exclude a nonprofit who has significant resources that directly benefit the primary government (PG) almost entirely, and for which the PG has access)

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## GASB 61: How to Include a C.U. (blend v. discretely present)

Generally, present discretely; however, we should blend in any of these 3 situations:

1. The C.U. governing board is substantively the same as the governing body of the PG, **and either**:
  - o **PG management has operational responsibility for the CU;** or
  - o **There is a financial benefit/ burden**
2. The CU provides its services entirely (or almost entirely) to the PG itself (not merely for the benefit of the PG, or to constituents of the PG)
3. **The CU's total outstanding debt is expected to be repaid almost entirely from PG**

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## GASB 61 – Reporting Foundations & other Non-profits (no change)

Exception to this blending requirement (Paragraph 40a):

A legally separate, tax-exempt organization should be reported as a **DISCRETELY PRESENTED** component unit of a reporting entity if all of the following criteria are met (even if they meet the criteria for blending):

1. Economic resources benefit the primary government, its component units, or its constituents.
2. PG entitled to, or has the ability to otherwise access, a majority of the economic resources held
3. Economic resources are significant to the PG.

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GASB 63 – Financial Reporting of:  
- Deferred outflows of resources,  
- Deferred inflows of resources,  
and  
- Net Position

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GASB 63

This has been implemented in calendar 2012:  
"Net Assets" changed to "Net position"

- "Statement of Net Position"
- "Net position: Net investment in capital assets"
- Currently Deferred inflows and outflows include only:
  - deferrals from derivatives that are operating as an effective hedge, and
  - deferrals under Service concession arrangement.

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GASB 65 – Items Previously Reported as assets and Liabilities

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## GASB 65 – Items previously reported as Assets and Liabilities

Effective: Years beginning after 12/15/2012 (12/31/2013, 3/31/2014, 6/30/2014, or 9/30/2014)

Purpose: Identify which transactions that should now be recognized as deferred inflows or outflows,

Implications:

Reclassification of balance sheet items

Limits future use of the term deferred to refer only to deferred outflows of resources and deferred inflows of resources

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## GASB 65 – Quick Reference

Transaction	Treatment
Governmental Funds – Revenue not received soon enough to be considered "available"	Deferred inflow
Debt – Related Transactions:	
Deferred charge on refunding	Deferred Outflow
Bond issuance costs	Expense
Prepaid insurance costs	Asset
Bond premium/ discount	Liability *

\* The unamortized bond premium or discount should continue to be included as part of the valuation of long term debt.

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## GASB 65 – Quick Reference, p.2

Transaction	Treatment
Government-mandated nonexchange or Voluntary nonexchange resources received before eligibility (other than time requirements)	Liability
- awaiting time requirements	Deferred inflow
Imposed nonexchange revenue (prop taxes): received before the period they may be used	Deferred inflow
Derived tax revenues received in advance	Liability
Exchange transactions received in advance	Liability
Sale of future revenues (unless GASB 48 allows revenue in the period of sale)	Deferred inflow

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## GASB 65 – Items previously reported as Assets and Liabilities

How would these be classified:

1. December year-ends that receive property tax revenue in December for the next fiscal year
2. When grant expenditure occurs but the reimbursement was not received within 60 days after year-end
3. Current refunding resulting in a defeasance of debt – difference between the reacquisition price and the net carrying amount of old debt
4. Prepaid insurance paid on 12/1/12 for fiscal year ending 12/31/13
5. Debt issuance costs

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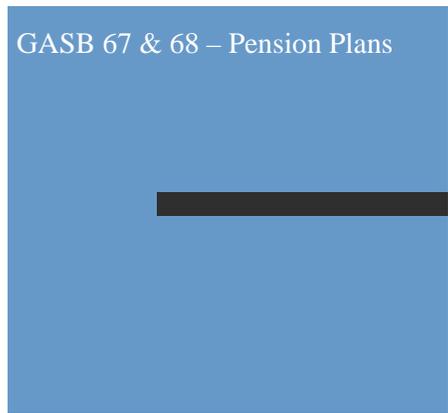
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## GASB 67 & 68 – Pension Plans




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## Effective Dates

### GASB 67, FINANCIAL REPORTING FOR PENSION PLANS

- Years beginning after June 15, 2013
- Pension plans have much to do to prepare
- Implementation plans are important

### GASB 68, ACCOUNTING & FINANCIAL REPORTING FOR PENSIONS

- Years beginning after June 15, 2014
- Understanding your type of plan
- Understanding the implications are not the same; depends on plan type
- Understanding the implications of your plan on your financial statements

June year end	December year end
Pension – 2014	Pension – 2014
Employer – 2015	Employer – 2015

This is a Big Deal!

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## GASB 68 – Accounting and Financial reporting for Pensions

- Overall Significant Changes
  - Cost-sharing employers will now have to report their proportionate share of the collective net pension liability
  - Very significant footnote disclosure changes (both for the employer as well as a plan)
  - Expanded Required Supplementary Information (employer and plan)

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## Current Approach vs. GASB 67/68

### CURRENT:

Pension costs are recognized as the pensions are funded (or how they should be funded, based on the actuarially required contribution (ARC))

### GASB 67/68:

*Key conceptual shift in reporting pension liabilities and expense under the economic resources measurement focus from a "funding" approach to an approach more focused on interperiod equity.*

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## Approach Under GASB 67/68

### ACCOUNTING IMPLICATIONS:

- Pension expense will be reported as employees earn their pension benefits by providing services
- If the amount funded is less than this, the statements will report a **net pension liability**
- Changes in pension liability:
  - A portion will be immediately recognized as pension expense; and
  - A portion will be reported as deferred outflows/inflows of resources

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### Formula for Net Pension Liability

Employers will now record the NET pension liability on the full accrual statements.



*These amounts will be measured as of the "measurement date"*

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### Total Pension Liability



- Calculated by the actuary
- Similar to today's actuarial accrued liability (BUT definitely NOT the same)
- GASB significantly limits HOW the total pension liability will be calculated
  - Actuarial cost method
  - Discount rate
  - Measurement date

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### Actuarial Methodology

Everyone will use the same actuarial methodology:

The "entry age" actuarial cost method, and

The "level % of payroll" basis for liability measurement.

*This means no more choice to use projected unit credit, aggregate, etc; and no more level dollar contribution!*

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## Discount Rate

Discount rate (to be applied to “present-value” of the projected benefit payment)

Single blended rate

- Long-term expected rate of return, to the extent that plan net position:
  - Projected to be sufficient to pay benefits
  - Plan assets expected to be invested using a strategy to achieve that return
- Index rate for high-quality 20-year tax exempt bond (AA/Aa or higher)

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## Plan Net Position

Plan Net Position

PLAN NET POSITION = PLAN ASSETS - PLAN LIABILITIES

- Assets are valued at FMV (not smoothed value!)
- All other amounts determined on same accounting basis used by pension plan
- (changes in FMV attributable to investment returns that are different than the Plan’s assumed long term expected rate of return will not impact pension expense immediately – this difference will be deferred and recognized over 5 years)

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## Measurement Date (of Net Pension Liability)

EMPLOYER:

Preference as of employer’s balance sheet date

If NOT as of the employer’s balance sheet date; no earlier than the end of the employer’s prior fiscal year

Actuarial valuation

- Encourage valuation at measurement date
- If not, allow valuations up to 30 months and 1 day prior to the employer’s most recent year end
- Must update procedures to roll forward amounts to the measurement date

*However, if there are new benefit changes or other significant changes, a new actuarial valuation may be required*

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## Income Statement Impact



**Impact on pension expense:** The change in the net pension liability **does NOT** all get recognized as pension expense immediately

Certain changes can be deferred (shown as deferred inflow or outflow related to pensions)  
 ○ See table on next slide

Everything else (including benefit changes) will impact pension expense immediately

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## Income Statement Impact

CHANGE IN NET PENSION LIABILITY DUE TO:	EXPENSE	DEFD ID
1. Employees work and earn more benefits	X	
2. Interest on the total pension liability	X	
3. Changes in total pension liability due to:		
a) Actual economic & demographic changes differing from assumed		Amortized
b) Changing assumptions about economic & demographic factors		Amortized
c) Changes in the terms of pension benefits	X	
4. Changes in amount of pension plan net assets due to:	X	
a) Projected investment earnings		
b) Actual investment earnings experience different than assumed		Amortized (5 Years)
c) All other (receiving contributions, paying benefits, etc.)	X	

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## Other Implications

ARC is no longer relevant for financial reporting

- But still need to comply with state law!

If ARC is calculated under the new standards, it will likely be higher than under current GAAP

- However, you can continue to calculate ARC under prior parameters.

Coordination with actuary – plan and employer!

- Timing of roll forward procedures, if required

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## Employers Participating in Cost-Sharing Plans

### CURRENTLY

- As long as you pay the contractually required contribution, no liability will be reported
- No separate actuarial calculation
- Minimal footnote disclosure

### GOING FORWARD

- Report their proportionate share of the collective net pension liability
- Substantial footnote disclosures

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## Cost-Sharing Employers

### Cost sharing employers expense will include:

Proportionate share of the plan's pension expense

Amortization of deferrals including:

- Net effect of annual changes in the employer's proportionate share
- Annual differences between the employer's actual contribution and its proportionate share

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## Cost-Sharing Pension Plans: Allocation Method

The [allocation method](#) chosen for this calculation was the proportion of covered payroll.

This may be acceptable, but the GASB allows any method that measures the proportionate relationship of the individual employer to the aggregate of all employers.

They encourage the use of projected long-term contribution efforts of each employer as the basis.

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## Cost-Sharing Pension Plans – Example calculation

Indiana Public Retirement System (PERF) Estimated GASB 68 Liability  
**TOTAL Estimated PERF Net Pension Liability**  
 June 30

	June 30		
	2010	2011	2012
	(in thousands)		
Total pension liability	\$ (14,506,052)	\$ (14,913,147)	\$ (15,784,240)
Plan net position	10,581,319	12,461,356	12,243,753
PERF estimated net pension liability	\$ (3,924,733)	\$ (2,451,791)	\$ (3,540,487)

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## Example Cost-Sharing Plan Allocation

University's Estimated Net Pension Liability

	June 30, 2011	June 30, 2012
	(in thousands)	
University covered payroll	\$ 150,000	\$ 160,000
PERF covered payroll	4,818,774	4,904,052
Percentage attributed to University	3.11%	3.26%
Percentage attributed to University	3.11%	3.26%
PERF total pension liability	14,913,147	15,784,240
University's percent of total pension liability	464,220	514,978
Percentage attributed to University	3.11%	3.26%
PERF plan net position	12,461,356	12,243,753
University's calculated plan net position	387,900	399,466
University's Estimated Net Pension Liability	\$ 76,320	\$ 115,512

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## Example Roll-forward

Indiana Public Retirement System (PERF) Estimated GASB 68 Liability  
**Rollforward of net pension liability and deferred inflows**

	Total PERF	University Share (3.26%)
	(in thousands)	
<b>Net pension liability</b>		
Net pension liability, July 1, 2011	\$ (2,451,791)	\$ (76,320)
<b>Components to pension expense</b>		
Normal cost	(253,007)	(8,248)
Actual benefit payments	748,745	24,409
Interest of 7%	(1,035,425)	(33,755)
Projected investment earnings	872,295	28,437
All other (receiving contributions, paying benefits, etc)	(212,651)	(6,965)
Total components recorded as pension expense	118,957	3,878
<b>Components to deferred inflow/outflow of resources:</b>		
Change in proportion from 3.11% in 2011 to 3.26% in 2012	-	(3,701)
Actual investment earnings experience different than assumed	(876,247)	(28,544)
Census gain (actuarial accrued liability experience)	87,831	2,863
Other assumptions changes loss	(419,237)	(13,667)
Total components recorded as deferred inflow/outflow	(1,207,653)	(43,070)
Net pension liability, June 30, 2012	<u>(3,540,487)</u>	<u>(115,512)</u>

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## Expanded Required Supplementary Information

- 10 years of changes in net pension liability
- 10-year comparison of funding status
- 10 years of ARC v. actual contributions

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Questions?

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**Prevention - An Approach To Business Fraud Risk**

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Dave Yost

Combined IPA Conference –  
August 16, 2013

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### Session Objectives

- Take an “extensive” survey
- Set prevention context and focus
- Identify prevention activities



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### Survey – Question 1

Do your clients consider fraud risk as a business risk?



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## Context & Focus

What are the types of schemes and operational areas we should be focused on within an organization when considering fraud prevention activities?



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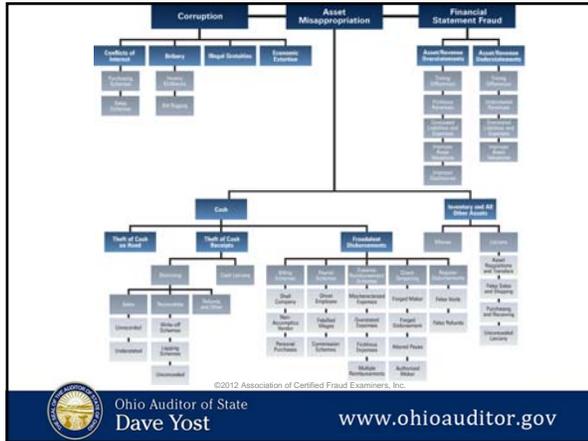
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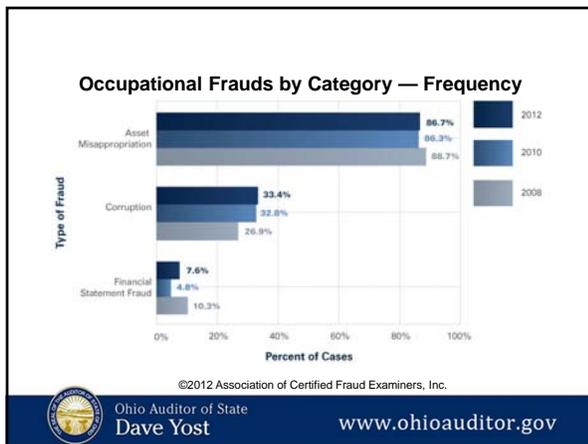
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### Occupational Frauds by Category — Median Loss



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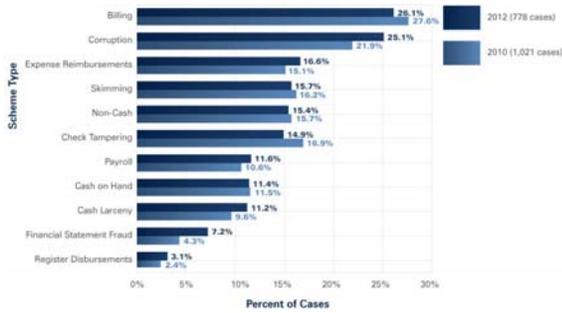
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### U.S. Cases-Only



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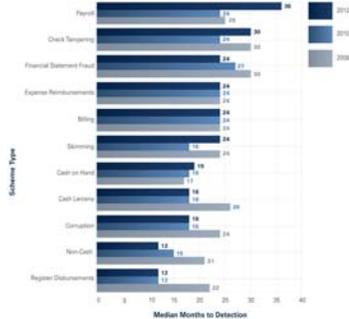
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### Duration of Fraud Based on Scheme Type



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### Fraud Prevention

#### Starting the Process

- Dedicated resources and commitment

THE ELBONIANS ARE DEMANDING BRIBES, OR ELSE THEY WON'T DO BUSINESS WITH US.

HIRE THEM AS OVERPAID CONSULTANTS AND DON'T ASK THEM FOR ANYTHING. THAT WAY, IT'S ALL LEGAL.

AND BY LEGAL YOU MEAN WON'T GET CAUGHT?

PO-TAY-TO, PO-TAH-TO.

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### Fraud Prevention

#### Starting the Process

- Conduct risk assessment
- Cost - benefit analysis
- Quality considerations

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## Fraud Prevention Program

- Appropriate Ethical Training
- On-going Risk Assessment Program
- Written policies & procedures
- Internal controls
- Segregation of duties
- Fair & balanced discipline
- Audit committees



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## Fraud Prevention Program

- Fraud Training – executives, managers, employees
- External audits
- Internal audit departments
- Management monitoring



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## Frequency of Anti-Fraud Controls



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Median Loss Based on Presence of Anti-Fraud Controls				
Control	Percent of Cases Implemented	Control in Place	Control Not in Place	Percent Reduction
Management Review	60.5%	\$100,000	\$185,000	45.9%
Employee Support Programs	57.5%	\$100,000	\$180,000	44.4%
Hotline	54.0%	\$100,000	\$180,000	44.4%
Fraud Training for Managers/Executives	47.4%	\$100,000	\$158,000	36.7%
External Audit of ICOPR	67.5%	\$120,000	\$187,000	35.8%
Fraud Training for Employees	46.6%	\$100,000	\$155,000	35.5%
Anti-Fraud Policy	46.6%	\$100,000	\$150,000	33.3%
Formal Fraud Risk Assessments	35.5%	\$100,000	\$150,000	33.3%
Internal Audit/FE Department	68.4%	\$120,000	\$180,000	33.3%
Job Rotation/Mandatory Vacation	16.7%	\$100,000	\$150,000	33.3%
Surprise Audits	32.2%	\$100,000	\$150,000	33.3%
Rewards for Whistleblowers	9.4%	\$100,000	\$145,000	31.0%
Code of Conduct	75.0%	\$120,000	\$164,000	26.8%
Independent Audit Committee	59.8%	\$125,000	\$160,000	16.7%
Management Certification of FIS	68.5%	\$138,000	\$164,000	15.9%
External Audit of FIS	80.1%	\$140,000	\$145,000	3.4%

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## Session Summary

- Offered context and focus for fraud prevention activities
- Identified prevention activities



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## Prevention - An Approach To Business Fraud Risk

### Special Audit Section

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Auditor of State  
IPA Contracting  
Update

Presented by: Leanna Abele  
and Debbie Liddil  
August 16, 2013

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## Overview



- Upcoming changes to the RFP
- Contract Modification Issues
- Insurance Consortiums – Qualified Firms
- Changes in Last Year (since August, 2012)
- Upcoming Updates and “Wish List”
- Questions



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## Upcoming Changes to RFP

- Plan to implement in Fall, 2013
- Changes for clarification/resolution of issues.
  - **Mandatory Elements** - Required Affirmations
    - Lots of problems with full compliance
    - Change to a standard PDF form with checkboxes
    - Partially completed by AOS and sent with the RFP.
    - Firm will need to check boxes to indicate affirmation, save the form, and then import into the beginning of the PDF proposal.
    - No change to Mandatory Elements – “Other Required Elements” other than “Timely RFP” – incorporated into opening paragraph. (Other Required Elements need to immediately follow the inserted form.)





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## Upcoming Changes to RFP

### – Submission of Proposals

- Must be prepared by and submitted by an office that expresses interest in the contract via the IPA Open Bid List (May require your firm to add additional offices/contacts to the IPA Portal)



### – Changes Related to Group Audits, Clarity Standards



### – AOS Access to IPA Working Papers –

- Clarification that IPA must provide copies of WPs to AOS (Per ORC, IPA WPs are not public record even in the possession of AOS). Waivers requested for FFR support.



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## Upcoming Changes to RFP

### – MBE/EDGE – Clarification of requirements

(Further discussion in Contract Modification section)

- Clarification - Additional wording changes to clarify existing sections of the RFP.



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## Contract Modifications

### Extensions

- **Extensions** – Most contracts have a provision to allow for a one or two year extension of the contract period.
  - These extensions cannot be exercised by the IPA or client - **ONLY at the AOS' discretion.**
  - Only for extenuating circumstances - must be a compelling reason to extend.



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## Contract Modifications

Completion of Modification/Extension Agreement

- **Issues with Completion of the Form:**
  - **Fiscal year(s)** impacted by the modification not always completed.
  - **Detailed Explanation** for Mod/Ext does not provide enough explanation/detail – *must be for services not known at the time of the original proposal and could not have been reasonably anticipated.*






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## Contract Modifications

Completion of Modification/Extension Agreement

- **Impact on cost section** are not clear – hours and cost should be for the period(s) impacted (not prior or future periods of the contract.)
- **Modification/Extension Agreement not timely** – **MUST** be completely executed/signed by all parties (Client/Firm/AOS) **prior** to the firm **starting** any additional work.
  - *We have had firms submit AUP reports to CFAE prior to approval to change to an AUP.*






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## Contract Modifications

Completion of Modification/Extension Agreement

- **MBE/EDGE Impact** - not always considered/reflected in the form
  - Any change in hours must be evaluated to determine the impact on the 15% cost requirement.
  - If the modification causes the hours to exceed 800, an MBE/EDGE firm must be added for that year.
  - If an MBE/EDGE firm is already required, any change in cost would impact the dollar amount required to be set aside for the MBE/EDGE firm.




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## Contract Modifications

Modifications from Audit to AUP

### • Issues Regarding Change from an Audit to AUP:

- AUPs are specific procedures (number of items to test, etc.) – only variance would be applicability (utilities, etc.) and/or if additional steps are approved by AOS (seldom required).
- We expect procedures will take approximately the same hours from entity to entity regardless of if audit was contracted as GAAP or Single Audit.



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## Contract Modifications

Modifications from Audit to AUP

- Therefore, applying a standard percentage decrease (e.g. 25%, 50%) may not be appropriate.
- AOS may ask for a budget breakdown of the hours.
  - *It should not include procedures that are not required for an AUP (reading minutes, preparing trial balances, etc.)*



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## Insurance Consortiums

Qualified Firms

### • Firm Qualifications

1. Previous experience auditing entities subject to regulation by the Dept. of Insurance
  - Governmental insurance consortiums are NOT subject to regulation by the Dept. of Insurance.
  - Therefore, firm must demonstrate auditing of insurance companies, etc.



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## Insurance Consortiums

Qualified Firms



2. Insurance industry certifications or memberships with insurance trade and professional associations

- Refer to AICPA Audit & Accounting Guides – *Life & Health Insurance Entities* and *Property & Liability Insurance Entities* for organizations that are an insurance industry resource for auditors and accountants.



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## Insurance Consortiums

Qualified Firms

3. Training and education that is specific to the insurance industry. 

\* The firm is not required to have all 3 requirements to be eligible; however, it is important to demonstrate the firm has proper experience/training.

These requirements will appear as Required Criteria on the Open Bid List for insurance consortiums. 



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## Changes in the Last Year

(Since August, 2012)

- Additional Functionality to IPA Portal**
  - Firm's contacts can update information using the "Update Firm Information, Contacts & Offices" block
    - Each office contact can update info for the specific office.
    - The **primary** office contact can:
      - Submit updated firm documentation** (GAGAS peer review, MBE/EDGE certification, EEO policy, GAGAS independence policy) **Subject to AOS review**




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## Changes in the Last Year

(Since August, 2012)



- **Add a New Contact** – can designate a new contact for one or more offices. Upon saving information, that person will receive an email to establish user name/password.
- **Add a New Office** – select a designated contact person from the established contacts and provide the office address. *Note: to add a new office with a new contact person, the new contact person must be added first.*
- **Move/Reassign Offices** – reassign the designated contact person using “drag and drop” function.
  - » *Note: only one contact person per office*



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## Changes in the Last Year

(Since August, 2012)

### • Additional Functionality to IPA Portal

- Automated Email Notifications Regarding Expired GAGAS Peer Review Report and/or MBE/EDGE Certifications



- GAGAS Peer Review –multiple reminders with suspension of the firm’s ability to bid if proper GAGAS peer review is not submitted.
- MBE/EDGE – reminder 30 days prior to expiration. Firm suspension if not submitted 30 days after expiration.



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## Changes in the Last Year

(Since August, 2012)



### • Implementation of “Basic Audits” (Bulletin 2012-007)

- Effective for periods ended Nov 30, 2012 and after.
- Entities with annual expenditures of \$100,000 or less that meet other criteria may opt for basic audit
- Report issued under AOS ORC 117 authority; therefore, only AOS performs procedures.
- If entity contracted to a firm, contract will be cancelled.



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## Changes in the Last Year

(Since August, 2012)

### • AOS Audit Region Reorganization

- Effective July 1, 2013
- Changed from 8 to 7 local regions plus the State region
- Region names changed: Central, East, Northeast, Northwest, Southeast, Southwest and West
- Email addresses for IPA invoice submissions also changed
- Refer to IPA Correspondence emailed June 28th



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Reorganization

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## Upcoming Updates

- RFP updates previously mentioned
- Updated FAQs – Firms and Clients
- Direct access to firm scores through IPA Portal (in 2013)
- Direct access to firm's outstanding reports, including due dates (in 2013)



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UPDATE

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## “Wish List” Items

- Automated invoicing approval (*hopefully next year!*)
- Distribution of RFPs and submission of proposals through the IPA Portal
- Suggestions???



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## Questions



- From Today's Presentation?
- Other General Questions?
- Think of something later?
  - Leanna – [LMabele@ohioauditor.gov](mailto:LMabele@ohioauditor.gov)
  - Debbie – [DLLiddil@ohioauditor.gov](mailto:DLLiddil@ohioauditor.gov)
  - [IPACorrespondence@ohioauditor.gov](mailto:IPACorrespondence@ohioauditor.gov)



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**HUD focuses on “Financial Ratio Analysis” and VMS Data**

Discussion Presented by:  
Jeanette Addington, MBA, CPA, CGFM

QR, MENAR, DSCR, OR, AR, AP ?#!





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**“Light bulb” moment**

- The only way to get that moment is to study and become fluent with HUD acronyms.




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**Widely used HUD acronyms and more added each day**

- ACC Annual Contributions Contract with Public Housing (PH)
- AMP Asset Management Project
- AR *Accounts Receivable*
- AP *Accounts Payable*
- CPU Cost per Unit
- DSCR *Debt Service Coverage Ratio*
- FASS Financial Assessment Subsystem
- FDS Financial Data Schedule
- FMC Financial Management Center
- MASS Management Assessment Subsystem
- MENAR *Months Expendable Net Assets*
- OR *Occupancy Rate*
- REAC Real Estate Assessment Center
- VMS Voucher Management System




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## About REAC (Real Estate Assessment Center)

- The Real Estate Assessment Center's mission is to provide and promote the effective use of accurate, timely and reliable information assessing the condition of HUD's portfolio; to provide information to help ensure safe, decent and affordable housing; and to restore the public trust by identifying fraud, abuse and waste of HUD resources.

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## REAC, continued

- REAC's "product" is information; accurate, credible and reliable information assessing the condition of HUD's housing portfolio.
- To access REAC go to:  
<http://hud.gov>

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## The Financial Data Schedule (FDS) Electronic submission

- The FDS was created to standardize the financial reporting by Public Housing Authorities to HUD/REAC.
- The FDS must be reported on the GAAP basis and electronically submitted to HUD REAC.
- HUD has created a line by line definition of the accounts.



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## Example Programs on the FDS- Project and Vouchers

Project Total CF and PH	ARRA capital fund	Housing Choice Vouchers 14,871	Business Activity	N/C S/R 14,182	HPRP- OBA state and local	SHELTER PLUS CARE 14,238
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Housing Choice Voucher (HCV) Federal  
 Capital Funds (CF) Federal  
 Public Housing Projects (PH) Federal  
 Residential Opportunity Self Sufficiency (ROSS) Federal  
 Other Business Activity (OBA) Non-Federal  
 Central Office Center (COCC) Non-Federal  
 Central Maintenance (CM) Non-Federal  
 Shelter Plus Care (SPC) Federal  
 Family Self Sufficiency (FSS) Federal  
 Shelter Plus Care (SPC) Federal  
 State and Local (SL) Non-Federal

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## PHAS changes for PH



- PHAS indicators
- Physical (40), Financial (25), Management operations (25) and Capital Fund (10)
- The utilization of ratio's are now being implemented and housing authorities must be aware of what balance sheet accounts and income statement accounts affect these ratios.

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## Gathering FDS Data for Ratio analysis- PH



		AMP 1	AMP 2	Total
1	111 Cash - Unrestricted	129,694	130,233	259,927
2	114 Cash - Tenant Security Deposits	12,522	16,300	28,822
3	115 Cash - Restricted for Payment of Current Liabilities	0	0	0
4	126 Accounts Receivable - Tenants	41	2,728	2,769
5	120 Total Receivables, Net of Allowances for Doubtful Accounts	694	6,683	7,377
6	131 Investments - Unrestricted	34,084	41,677	75,761
7	135 Investments - Restricted for Payment of Current Liability	0	0	0
8	142 Prepaid Expenses and Other Assets	9,162	13,085	22,247
9	144 Inter Program Due From	5,000	0	5,000
10	312 Accounts Payable <= 90 Days	1,823	4,388	6,211
11	313 Accounts Payable >90 Days Past Due	0	0	0
12	343-010 Current Portion of Capital Debt (CFFP)	0	0	0
13	310 Total Current Liabilities	35,773	29,142	64,915

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## [ Points Earned ]



	AMP 1	AMP 2
Points Earned:		
QR	12.00	12.00
MENAR	11.00	11.00
DSCR	2.00	2.00
Total FASS (out of 25 points)	25.00	25.00
OR	16.00	16.00
AR	5.00	0.00
AP	4.00	4.00
Total MASS (out of 25 points)	25.00	20.00

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## [ Enhancing Ratios for the client ]

- Analyzing accounts receivable and writing off old accounts.
- Separating out accounts payable for utilities and insurance.
- Categorizing accrued compensated absences to long term.
- If providing consultation services add this as a value added service.

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## [ What are Housing Choice Vouchers (HCV)? ]

- Federal program for assisting low-income families, the elderly and disabled to afford decent, safe and sanitary housing in the private market.



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## Accounting for HCV



- Administrative fees will be earned based on lease up amount on the first day of the month.
- HAP and UAP are the funds received for the NRA (net restricted asset)
- The program is now required to present monthly reporting for the NRA.
- The reporting is through VMS very detailed.

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## Auditing concerns for auditors' of Housing Authorities



- Directors will be trying to preserve the reserves in PH and auditors need to make sure the expenditures are allowable.
- The Administrative fee for HCV must be calculated correctly for Pre and Post and if this is incorrect the Authority could have future issues with HUD.
- Compliance auditing is very important for authorities and very unique if you have not audited for these type agencies in the past. Any overlooked compliance issues definitely could impact funding. **Ratio analysis becomes very important.**
- Substantive auditing is the same as any other organization.

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## Concerns continued:



- Late auditor approval to HUD REAC for the audited FDS could jeopardize future funding for the authority.
- Salaries need to be added to the compliance testing for the new limits imposed.
- The VMS must equal the line items on the final audited FDS.
- Authorities are being forced to do more with much less so there is a higher risk of taking short cuts to get the work done which could lead to more non-compliance issues (none intentional).

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**QUESTIONS??**

Thank you!!!!



Certified Public Accountants



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**The Changing Face of COSO and Its Impact on Your Control Environment**

**August 16, 2013**

Donald R. Owens, CPA, CFF, CIA, CFSA, CBA, CRMA  
 Shareholder, Internal Audit and Risk Advisory Services  
 Schneider Downs & Co., Inc.

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## Why Revise COSO

"In the twenty years since the inception of the original framework, business and operating environments have changed dramatically, becoming increasingly complex, technologically driven, and global. At the same time, stakeholders are more engaged, seeking greater transparency and accountability for the integrity of systems of internal control that support business decisions and governance of the organization."

"...the *Framework* includes enhancements and clarifications that are intended to ease use and application. One of the more significant enhancements is the formalization of fundamental concepts that were introduced in the original framework. In the updated *Framework*, these concepts are now principles, which are associated with the five components, and which provide clarity for the user in designing and implementing systems of internal control and for understanding requirements for effective internal control."

Extracts taken from the COSO 2013 Executive Summary

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## COSO's Origins

- Committee of Sponsoring Organization (COSO) of the Treadway Commission.
- COSO was organized in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private-sector initiative that studied the causal factors that can lead to fraudulent financial reporting.
- The National Commission/COSO was sponsored jointly by five major professional associations headquartered in the United States.

	American Accounting Association;
	American Institute of Certified Public Accountants ;
	Financial Executives International;
	The Institute of Internal Auditors; and
	Institute of Management Accountants (previously National Association of Accountants .

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## COSO Publications Advancing Internal Controls

### Internal Controls Guidance

- Internal Control - Integrated Framework (1992)
- Internal Control Issues in Derivatives Usage (1996)
- Internal Control over Financial Reporting - Guidance for Smaller Public Companies (2006)
- Guidance on Monitoring Internal Control Systems (2009)

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**COSO Publications Advancing ERM**

**Enterprise Risk Management Guidance**

- Enterprise Risk Management - Integrated Framework (2004)
- \*\*Strengthening Enterprise Risk Management for Strategic Advantage (2009)
- Effective Enterprise Risk Oversight: The Role of the Board of Directors (2009)
- \*\*Board Risk Oversight - A Progress Report: Where Boards of Directors Currently Stand in Executing their Risk Oversight Responsibilities (2010)
- \*\*COSO's 2010 Report on ERM: Current State of Enterprise Risk Oversight and Market Perceptions of COSO's ERM Framework (2010)
- \*\*Embracing Enterprise Risk Management: Practical Approaches for Getting Started. (2011)

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**COSO Publications Advancing ERM**

**Enterprise Risk Management Guidance, continued**

- \*\*Developing Key Risk Indicators to Strengthen Enterprise Risk Management (2011)
- \*\*Enterprise Risk Management for Cloud Computing (2012)
- \*\*Risk Assessment In Practice (2012)
- \*\*Enhancing Board Oversight by Avoiding and Challenging Traps and Biases in Professional Judgment (2012)
- \*\*Enterprise Risk Management - Understanding and Communicating Risk Appetite (2012)
- \*\*Demystifying Sustainability Risk: Integrating the triple bottom line into an enterprise risk management program (commissioned study in 2013)

\*\* - Thought Papers endorsed by COSO

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**COSO Publications Advancing Fraud Deterrence**

**Fraud Deterrence Guidance**

- Report of the National Commission on Fraudulent Financial Reporting (1987)
- Fraudulent Financial Reporting: 1987-1997 — An Analysis of U.S. Public Companies (1999)
- Fraudulent Financial Reporting: 1998-2007 — An Analysis of U.S. Public Companies (2010)

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**SCHMIDT DOWNS**



### Changes to COSO 2013

- 2013 is an update of 1992, NOT an overhaul. The five core components remain.
- Change from "Financial Reporting" to "Reporting" objective to encompass reporting both internally and externally. Consideration is also given to the media used to report.
- Increased emphasis on compliance and operations objectives (many organizations became tunnel focused on ICFR).
- Incorporates 17 principles into the five components and aligned with each principle are points of focus to assist in designing and assessing the adequacy of the control environment.
- Promotes the five components as integrated and all five must be effective to manage risk (all five components are given equal standing).
- Elevates focus on technology, governance, competency, fraud prevention

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**SCHMIDT DOWNS**



### COSO Then and Now



1992

2013

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**SCHMIDT DOWNS**



### Update considers changes in business and operating environments

*Environments changes... ...have driven Framework updates*

- Expectations for governance oversight
- Globalization of markets and operations
- Changes and greater complexity in business
- Demands and complexities in laws, rules, regulations, and standards
- Expectations for competencies and accountabilities
- Use of, and reliance on, evolving technologies
- Expectations relating to preventing and detecting fraud



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### Critical Takeaways Regarding the Update

- The Framework does not prescribe controls to be selected, developed, and deployed for effective internal control
- An organization's selection of controls to effect relevant principles and associated components is a function of management judgment based on factors unique to the entity
- A major deficiency in a component or principle cannot be mitigated to an acceptable level by the presence and functioning of other components and principles
- However, understanding and considering how controls effect multiple principles can provide persuasive evidence supporting management's assessment of whether components and relevant principles are present and functioning

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### COSO Evolution - Principles and Points of Focus

Easier for the organization (and its auditor) to:

- Assess what has been addressed.
- Identify gaps, shortcomings, and oversight in the approach.

MOVES IT FROM INTERPRETATION TO DEFINITIVE PRACTICES

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### Update articulates principles of effective internal control

<b>Control Environment</b>	<ol style="list-style-type: none"> <li>1. Demonstrates commitment to integrity and ethical values</li> <li>2. Exercises oversight responsibility</li> <li>3. Establishes structure, authority and responsibility</li> <li>4. Demonstrates commitment to competence</li> <li>5. Enforces accountability</li> </ol>
<b>Risk Assessment</b>	<ol style="list-style-type: none"> <li>6. Specifies suitable objectives</li> <li>7. Identifies and analyzes risk</li> <li>8. Assesses fraud risk</li> <li>9. Identifies and analyzes significant change</li> </ol>
<b>Control Activities</b>	<ol style="list-style-type: none"> <li>10. Selects and develops control activities</li> <li>11. Selects and develops general controls over technology</li> <li>12. Deploys through policies and procedures</li> </ol>
<b>Information &amp; Communication</b>	<ol style="list-style-type: none"> <li>13. Uses relevant information</li> <li>14. Communicates internally</li> <li>15. Communicates externally</li> </ol>
<b>Monitoring Activities</b>	<ol style="list-style-type: none"> <li>16. Conducts ongoing and/or separate evaluations</li> <li>17. Evaluates and communicates deficiencies</li> </ol>

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**SCHNEIDER ELECTRIC**



**Update articulates principles of effective internal control (continued)**

**Control Environment**

1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

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**SCHNEIDER ELECTRIC**



**Update articulates principles of effective internal control (continued)**

**Risk Assessment**

6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control.

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**SCHNEIDER ELECTRIC**



**Update articulates principles of effective internal control (continued)**

**Control Activities**

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into place.

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**SCHMIDT DOWNS**



**Update articulates principles of effective internal control (continued)**

**Information & Communication**

- 13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
- 14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- 15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

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**SCHMIDT DOWNS**



**Update articulates principles of effective internal control (continued)**

**Monitoring Activities**

- 16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- 17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

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**SCHMIDT DOWNS**



**COSO Evolution – Includes Characteristic of Sound Controls for each Principle...Points of Focus**

**Component: Control Environment**

↓

**Principle 1: The organization demonstrates a commitment to integrity and ethical values.**

↓

**Points of Focus:** The following points of focus may assist management in determining whether this principle is present and functioning:

- **Sets the Tone at the Top**—The board of directors and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.
- **Establishes Standards of Conduct**—The expectations of the board of directors and senior management concerning integrity and ethical values are defined in the entity's standards of conduct and understood at all levels of the organization and by outsourced service providers and business partners.
- **Evaluates Adherence to Standards of Conduct**—Processes are in place to evaluate the performance of individuals and teams against the entity's expected standards of conduct.
- **Addresses Deviations in a Timely Manner**—Deviations of the entity's expected standards of conduct are identified and remedied in a timely and consistent manner.

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**SCHNEIDER DIEMER**



### Controls Can Reside in Multiple Components and Principles

Component	Control Environment		
Principle	1. The organization demonstrates a commitment to integrity and ethical values.		
Controls embedded in other components may effect this principle	Human Resources review employees' confirmations to assess whether standards of conduct are understood and adhered to by staff across the entity <i>Control Environment</i>	Management obtains and reviews data and information underlying potential deviations captured in whistleblower hotline to assess quality of information <i>Information &amp; Communication</i>	Internal Audit separately evaluates Control Environment, considering employee behaviors and whistleblower hotline results and reports thereon <i>Monitoring Activities</i>

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**SCHNEIDER DIEMER**



### Control Mapping and Gaps-Working from your population of controls; map each control through to the relevant objective(s)

Control Description	Principles (17)	Core Components	Objectives (O, R, C)
The delegation of authority policy is updated annually and presented to the board of directors for their review and approval and then distributed to all management personnel across the organization.	2. Exercises oversight responsibilities 3. Establishes structure, authority, and responsibility 5. Enforces accountability	Control Environment	Operations Reporting Compliance
	10. Selects and Develops control activities 12. Deploys through policies and procedures	Control Activities	Compliance

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**SCHNEIDER DIEMER**



### External and Internal Reporting Expansion

Relationship within Reporting Category of Objectives  
The overall relationship between the four sub-categories of reporting objectives is shown in the graphic below.

	Financial/Non Financial	Characteristics
External/External	<b>External Financial Reporting</b> Annual Financial Statements Interim Financial Statements Earnings Releases	<ul style="list-style-type: none"> <li>Used to meet external stakeholder and regulatory requirements</li> <li>Prepared in accordance with external standards</li> <li>May be required by regulators, contracts, agreements</li> </ul>
	<b>External Non-Financial Reporting</b> Internal Control Report Sustainability Report Supply Chain/Custody of Assets	
Internal/Internal	<b>Internal Financial Reporting</b> Divisional Financial Statements Cash Flow/Budget Bank Covenant Calculations	<ul style="list-style-type: none"> <li>Used in managing the business and decision making</li> <li>Established by management and board</li> </ul>
	<b>Internal Non-Financial Reporting</b> Staff/Asset Utilization Customer Satisfaction Surveys Key Risk Indicator Dashboards Board Reporting	

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### Drivers of the Framework

Objectives - Must be clearly defined for the following:

- Operations
- Reporting
- Compliance

Risk Assessment - Must identify the critical risks that can impair an organization from achieving its objectives and align the risks with the respective objectives and controls to assess if the risks are properly mitigated to an acceptable level.

Key to an effective controls framework is linking objectives, risks and controls

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### Transition & Impact

- Users are encouraged to transition applications and related documentation to the updated Framework as soon as feasible
- Updated Framework will supersede original Framework at the end of the transition period (i.e., December 15, 2014)
- During the transition period, external reporting should disclose whether the original or updated version of the Framework was used
- Impact of adopting the updated Framework will vary by organization
  - Does your system of internal control need to address changes in business?
  - Does your system of internal control need to be updated to address all principles?
  - Does your organization apply and interpret the original framework in the same manner as COSO?
  - Is your organization considering new opportunities to apply internal control to cover additional objectives?

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### Transition & Impact (continued)

- The principles-based approach provides flexibility in applying the Framework to multiple, overlapping objectives across the entity
  - Easier to see what is covered and what is missing
  - Focus on principles may reduce likelihood of considering something that's irrelevant
- Understanding the importance of specifying suitable objectives focuses on those risks and controls most important to achieving these objectives.
- Focusing on areas of risk that exceed acceptance levels or need to be managed across the entity may reduce efforts spent mitigating risks in areas of lesser significance.
- Coordinating efforts for identifying and assessing risks across multiple, overlapping objectives may reduce the number of discrete risks assessed and mitigated.

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### Transition & Impact (continued)

- Selecting, developing, and deploying controls to effect multiple principles may also reduce the number of discrete, layered-on controls.
- Applying an integrated approach to internal control - encompassing operations, reporting, and compliance – may lessen complexity.
- In assessing severity of internal control deficiencies, use only the relevant classification criteria as set out in the Framework or by regulators, standard-setting bodies, and other relevant third parties, as appropriate.

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### Recommended Actions

- Read COSO's updated Framework and illustrative documents
- Educate the audit committee, C-suite, operating unit and functional management
- Establish a process for identifying, assessing, and implementing necessary changes in controls and related documentation
- Develop and implement a transition plan timely to meet key objectives – e.g., apply updated Framework by December 31, 2014 for external reporting

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### Newly Released COSO Documents

- **Internal Control—Integrated Framework Executive Summary.** Represents a high-level overview of the 2013 Framework and is intended for the CEO and other senior management, boards of directors, and regulators.
- **Internal Control—Integrated Framework and Appendices.** This volume, approximately 175 pages, sets out the Framework in detail, defining internal control, describing the components of internal control and underlying principles, and providing direction for all levels of management in designing and implementing internal control and assessing its effectiveness. The appendices to this volume, including a glossary, specific considerations for smaller entities, summary of changes vs. the 1992 version, etc., provide additional reference but aren't considered part of the Framework.

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**Newly Released COSO Documents (continued)**

- **Internal Control—Integrated Framework Illustrative Tools for Assessing Effectiveness of a System of Internal Control.** This volume provides templates and scenarios to support management in applying the Framework, specifically in terms of assessing effectiveness.
- **Internal Control over External Financial Reporting: A Compendium of Approaches and Examples.** This compendium provides practical approaches and examples illustrating how the components and principles set forth in the Framework can be applied in preparing external financial statements. It is intended to be used as a resource for questions and research on specific principles and components rather than being read from cover to cover.

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**Illustrative Tools for Assessing Effectiveness of a System of Internal Control**

- Assist users when assessing effectiveness of internal control based on the requirements set forth in the Framework
  - Templates illustrate a possible summary of assessment results
  - Scenarios illustrate practical examples of how the templates can be used to support an assessment and important considerations in performing an assessment
- Focus on evaluating components and relevant principles, not the underlying controls that affect relevant principles
- Cannot satisfy criteria established through laws, rules, regulations, or external standards for evaluating the severity of internal control deficiencies
- Can customize level and amount of detail included in the templates as management may deem necessary

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**Internal Control over External Financial Reporting (ICEFR): A Compendium of Approaches and Examples**

- Approaches and Examples illustrate how various characteristics of principles may be present and functioning within a system of internal control relating to external financial reporting
  - Approaches are designed to give a summary-level description of activities that management may consider as they apply the Framework
  - Examples illustrate one or more points of focus of a particular principle. They are not designed to provide a comprehensive, end-to-end example of how a principle may be fully applied in practice.
  - Selected approaches and examples do not illustrate all aspects of components and relevant principles that would be necessary for effective internal control
- Stakeholders should refer to the Framework for the requirements of effective internal control
  - Compendium supplements and can be used in concert

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**ICEFR: A Compendium of Approaches and Examples (continued)**  
**Responsive Illustrative Documents**

- Add or clarify specific examples, including:
  - Establishing responsibilities for reviewing financial statements
  - Monitoring investigation and reporting of whistleblower allegations
  - Monitoring identification and protection of sensitive financial information
  - Monitoring identification and analysis of risk of material misstatement due to fraud
- Address a risk-based approach for achieving external financial reporting objectives
  - Specify suitable objectives for external financial reporting
  - Risks to achieving suitable objectives
  - Responses to risks

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**Obtaining New COSO's Publications and Training**

The updated Framework and related Illustrative documents are available in 3 layouts

1. E-book – This layout is ideally suited for those wanting access in electronic format for tablet use. An e-book reader from the AICPA is required to view this layout. Printing is restricted in this layout.
  - Purchase through [www.cpa2biz.com](http://www.cpa2biz.com)
2. Paper-bound – This layout is ideally suited for those wanting a hard copy.
  - Purchase through [www.cpa2biz.com](http://www.cpa2biz.com)
3. PDF – This layout is ideally suited for organizations interested in licensing multiple copies.
  - Contact the AICPA at [copyright@aicpa.org](mailto:copyright@aicpa.org)

The following is a link to COSO 2013 Training offered by The Institute of Internal Auditors  
<https://na.theiia.org/training/courses/Pages/COSO-2013-Implementing-the-Framework.aspx>

*Note- content in this presentation was courtesy of COSO and The Institute of Internal Auditors*

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**Questions?**

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As one of the largest certified public accounting and business advisory firms in the region, Schneider Downs serves clients throughout the country and around the world. By integrating high-quality resources, systems and personnel, Schneider Downs has built a reputation of delivering individualized services built on insight, innovation, and experience to meet each client's specific needs.

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We Are Committed to Your Success  
**Schneider Downs**

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## The Ohio High School Athletic Association

Protecting Schools and Students from Fraud: Improving Accountability through Audits in School Events

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Thank you for turning off your cell phones.

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## Contact Information

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## Today's Topics

- Who is the OHSAA?
- What happened to change the landscape?  
(Some good old fashioned stories of fraud plus regulators afoot)
- Development of Best Practices and OHSAA's role
- Procedures for conducting audits at member schools
- Regular Season and Tournament Differences

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## Who is the OHSAA?

» Facts and Figures

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## Practical Facts about the OHSAA

- 350,000 student athletes in Ohio's member schools (Top 3 nationally)
- 821 member high schools (Top 5 nationally)
- 796 member junior and middle schools
- 6 athletic districts (Central, East, Northeast, Northwest, Southeast and Southwest) responsible for conducting sectional and district tournaments

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## Practical Facts about the OHSAA

- The Association has been in place since 1907.
- Governance is by a 11 member board of directors representing:
  - 1 for each of the 6 athletic districts based on school size and the rotation specified in the OHSAA Constitution
  - 1 representing female participants
  - 1 representing ethnic minority participants
  - 1 representing middle school participants
  - 1 non-voting member representing the state athletic directors association (OIAAA)
  - 1 non-voting member representing the State Superintendent of Public Instruction

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## Practical Facts about the OHSAA

- \$18 million organization encompassing 24 recognized sports
  - Team – Basketball, Volleyball, Football, Field Hockey, Baseball, Softball, Ice Hockey, Soccer
  - Individual – Tennis, Golf, Track and Field, Swimming and Diving, Bowling, Girls Gymnastics, Wrestling
- Full time staff of the OHSAA is 22 full time employees.
- Commissioner, Chief Financial Officer, Associate and Assistant Commissioners, Support Staff
- The reality is "The OHSAA is YOU!"

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## Mission of the OHSAA

- **Regulate and administer interscholastic athletic competition**
- **Operate with fairness and equity**
- **Promote athletics as an integral part of a student's educational experience**
- **Recognize and promote**
  - Academics
  - Safety of participants
  - Good citizenship
  - Lifelong values as the foundation of interscholastic athletics

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## OHSAA Commitment

- Serve the member schools
- Strive to be the nation's premier non-profit athletic organization
- Provide exemplary athletic oversight through swift, fair, consistent and impartial regulatory rulings
- Operate with openness that generates trust and with strict fiscal accountability

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## OHSAA Commitment

- Provide impartial, responsive and inclusive leadership
- Conduct tournaments of nationally recognized excellence
- Honor our ultimate purpose, which is to foster lifetime values, good citizenship, ethics and a fair-play approach to life among student-athletes while promoting safe and sporting-like athletic environments

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## What Happened to Force Changes in Accountability?

»» Tales of Fraud and Regulators

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## Where We Are Today

The never ending search for funds:



Both from a personal and government standpoint

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## Tournament Accounting

### Brief History of Issues

- Madison Local SD (Richland) – Athletic Director used tournament account to launder money from outside sources – \$57,000; sold school wrestling mats and put corporate sponsor money in outside account; restitution to school made; probation sentence for offender
- Olentangy Local – 2 athletic directors had non-school tournament accounts where funds were (1) not paid to the school for facility rentals and (2) included some unallowable costs for tournaments or school activities; ODE still investigating professional conduct issues.

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## Tournament Accounting

### Brief History of Issues

- Hilliard City SD – Athletic director "borrowed" funds from the account and did not correctly account for dollars in the account. Co-mingled funds from athletic conference and other events with OHSAA and school funds. "Mad money kept from my wife." – More than \$10,000 but could be as large as \$40,000; ODE will launch professional conduct investigation.
- Northwest Ohio AD – "Tournaments must be doing great because that's how the AD paid for his daughter's car repair at my shop."

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## Tournament Accounting

- Brief History of Issues
  - Southwestern City SD (Franklin County) – AD with a separate tournament account with cashier’s check payment to self for \$1000 to pay for tournament manager fees in wrestling. Tournament manager fee was for just over \$300 per wrestling event.
  - City of Findlay – District Baseball personnel were paid in cash and extra dollars were charged for field rental beyond established by city policy.
  - Wooster City SD – \$500 missing from concession stand and ticket sales in regular season
  - Warren City SD (Trumbull County) – \$46,000 missing from ticket sales, season tickets and parking receipts.

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## Regulators on the Case

- IRS investigating Independent Contractors versus Employees
  - Arizona and Virginia High School Associations
  - “According to IRS estimates, more than \$50 billion in revenue is lost each year due to reporting errors.” – *Clifton Gunderson LLP Newsletter*, Summer 2010 – reduced tax collections.
  - Additional allocation (\$50 million) for enforcement
  - IRS in school districts to review status of independent contractors
  - Game officials, security, event staff

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## What is the OHSAA Role?

- Development of Standard Best Practices

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## Treasurer's Liaison Group

- Collection of Practitioners to Develop Procedures for all Schools to Implement
- Approximately 60 members of the committee
  - All areas of the state and all sizes of schools
  - Auditor of State representatives
  - Ohio Association of School Business Officials
  - OHSAA Legal Counsel
  - Retired IRS agent and basketball official
  - Tournament managers

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## Treasurer's Liaison Group

- Developed standard best practices for schools to adopt
- Auditor of State used this as the basis for issuing AOS Technical Bulletin 2013-005
- Best practices adopted by OHSAA, BASA (school superintendents), OASBO (school treasurers), OIAAA (school athletic directors) and OASSA (school principals)

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## Treasurer's Liaison Group

- This was a joint effort to bring accountability to school events
- Not just regular athletic events – also band concerts, musicals, OHSAA tournaments
- Any time a school has an event and charges admission

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## Why is the OHSAA Involved?

- Service to member schools
- Related largely to athletics as a major component of school event activities
- Unifying role to bring professional organizations together
- Bridge gap between financial and athletic leaders

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## Best Practice Procedures

» Standards for School District Accountability over Events

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## The Basics

- Protection of Revenue
- Reduction of Expenditures
- Effective Reconciliation Controls to Find Issues Quicker
- One System that Works for Regular Season and OHSAA Tournaments

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## Revenue Procedures

- School Treasurers and Fiscal Officers involved in financial accountability from the beginning
- Training for those handling money on season or annual basis
- Use tickets at all events, particularly for those with large attendance
- Written ticket reports that match up with money collected

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## Revenue Procedures

- Security of tickets through out the year – periodic inventories
- Policy and procedures on passes – who gets, when can be used, how many get in
- Segregation of duties
  - More than one person handling tickets and money at all times
  - More than one person counting money at end of night
  - Signoffs on reports

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## Revenue Procedures

- Policy and procedure on securing money at end of night
  - Good – Lock in school safe or night deposit
  - Bad – Leaving it in a car or unlocked desk, filing cabinet or room
- Use deputies and/or city police to make sure people get the money put away properly

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## Revenue Procedures

- Treasurers may want to attend the event and see the practical issues with running an event
- Not required to attend – demonstrates a good faith effort
- Train event staff jointly with AD – make volunteers and paid staff comfortable with process and emphasize the controls are to protect

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## Expenditure Procedures

- Treasurers must be involved in the process
  - Can still use petty cash accounts (primarily for officials and law enforcement)
  - Can make expenses all paid through school treasurer
- Cash payments to event staff should not be done for any events
- If using petty cash accounts –
  - Treasurer should have access to account
  - Bank statement should go to treasurer's office
  - No wire transfers or debit cards

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## Expenditure Procedures

- Evaluate independent contractor versus employees
- Currently – most people are independent contractors and this may be incorrect
- Independent Contractors
  - Game officials
  - Sworn law enforcement
  - EMTs
  - Doctors and trainers
- Employees – Likely to be everyone else

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## Expenditure Procedures

- 20 point test from IRS – Control over the person’s work
- Treasurers have been strongly encouraged to evaluate people paid (particularly the event workers) to see if they are really employees
- Ticket Takers, Ushers, Ticket Sellers, Scorers, Timers, etc. are likely employees

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## Reconciliation Procedures

- Tickets compared to revenue received
- Ticket reports compared to amounts deposited in bank
- Estimates of crowds at events (reasonable person test)
- Ticket inventories conducted
- Passes issued compared to sign in sheets at gate

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## Presentations to Schools

- Schools have been told of the standards through lots of means
- Have presented at presentations since summer 2012 around state (OASBO regional meetings, OSBA treasurers’ clinics, OIAAA meetings, etc.)
- Articles for OASBO quarterly, OIAAA quarterly newsletter, OHSAA magazine, etc.

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## Regular Season vs. Tournaments

- » Same standards to promote better accountability

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## Regular Season vs. Tournaments

- What is the difference between the accountability systems for regular season and tournaments?
  - THERE ARE NO DIFFERENCES!
- Treasurer should be involved in the accountability for tournaments
- AD is a critical part of accountability

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## Regular Season vs. Tournaments

- Treasurers and Superintendents sign the contract to bind the district - No longer the AD
- No independent tournament accounts - All funds must be run through the treasurer or through a treasurer approved petty cash account
- Financial activities for tournaments run through Fund 022 (agency fund)

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### Regular Season vs. Tournaments

- OHSAA expectation that all accountability best practices will be in place for tournaments – Same accountability as regular season
- May use a flat rate to pay for expenses
- Registered game officials, sworn law enforcement, doctors, EMTs and trainers are independent contractors
- All other personnel are responsibility of the venue

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### Regular Season vs. Tournaments

- All event workers (ticket takers, ticket sellers, ushers, tournament managers, scorers, timers, etc.) should have 20 point test applied
- Responsibility is on school to make sure the test is conducted honestly
- The workers are the responsibility of the event site – not the OHSAA

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### Regular Season vs. Tournaments

- Financial Office may include up to \$200 for handling the financial part of the tournament
- Not a payment to the treasurer – reimbursement for time to the financial office
- All schools

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## Time Frame for Transition

- Many schools have already taken control of tournament accounts and have made decisions about independent contractors vs. employees
- Some are still working out the logistics
- For the most part, we expect that schools are making significant efforts toward compliance starting in fall 2013.
- Understanding that some may take a portion of the school year to be fully compliant

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## Time Frame for Transition

- OHSAA has already seen transition to this accountability system in Central Ohio and many sites in SW and SE Ohio.
- NW moving forward steadily.
- NE and E are lagging a bit behind.
- Major push will happen fall 2013 for football.

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## Time Frame for Transition

- Expectation is for Treasurers and ADs to have conversations about how to increase accountability
- The default is no longer just do what we have always done
- Default is the new system with understanding about extraordinary circumstances
- Auditors are part of the push to move the process forward

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## THANK YOU

- ▶ We know this can be a difficult job sometimes, but we thank you for what you do to make successful citizens.
- ▶ We know that making financial accountability decisions are not easy or popular.
- ▶ We want to be a partner in making processes simple, easy to administer and consistent among all school treasurers.
- ▶ We want to be viewed as a resource to help maintain institutional control in schools.
- ▶ Lots of work to do, together.

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