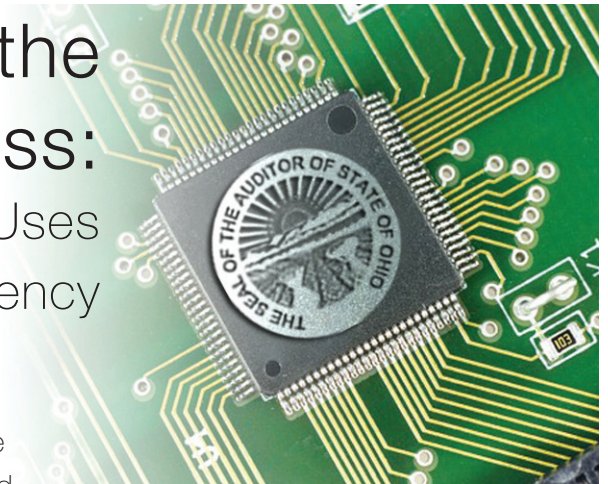


Best Practices

Transforming the Audit Process:

The Ohio Auditor of State's Office Uses 21st Century Tools to Improve Efficiency



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By Julia Debes

From the iPhone to Google to Twitter, governments and

businesses are bombarded with the latest and greatest technological tools that claim to transform the way the world operates.

In today's digital age, however, these new technologies are often introduced faster than companies can determine how to use them effectively. And while the private sector often adapts and integrates the newest efficiencies into its practices, government often lags behind.

The protocol and the software will continue to evolve to better meet the needs of auditors and entities alike.

The auditing process is one area in which government can't fail to keep pace. That was a problem quickly identified by Mary Taylor when she

became Ohio's Auditor of State in January 2007, the first certified public accountant to serve in that office.

"Coming from a private-sector accounting background, I found an office that was falling behind in the use of efficient technology and auditing practices," Auditor Taylor explained. "Processes and procedures were less efficient, and therefore more costly than I knew they needed to be. That had to change, because I was determined to be a 21st century Auditor, using 21st century tools."

One example of these outdated systems involved audit work papers. Private auditing firms have been using electronic-based, "paperless"

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Dear Colleague,

A little less than four years ago, I was privileged to be elected to serve as Ohio's 31st Auditor of State. Looking back now on that time in office – which has flown by much too quickly – I can say it has been a remarkable and very fulfilling experience, both personally and professionally.

That satisfaction comes from having worked closely with so many talented and service-minded colleagues, including the fine staff in the Auditor of State's Office as well as thousands of public officials and community leaders in the client governments, schools and agencies we serve throughout Ohio. I also take great satisfaction from the significant progress we have made in the Auditor of State's Office toward modernizing our audit management systems and making our services more effective and less costly for our clients – and for all Ohio taxpayers. Some of those advances and other accomplishments are described in this issue of *Best Practices*.

The past four years have seen their share of challenges and uncertainties for all of us in public service. Most state and local governments are working with fewer resources of every kind. Those challenges have made our accomplishments all the more significant.

This will be the final regular issue of *Best Practices* before I leave office as Auditor of State. Let me take this occasion to say a heartfelt "thank you" to those I have been honored to work with in this role. I am grateful for your support – and especially for your hard work and commitment to the citizens of Ohio who we are all so privileged to serve.

Sincerely,



Mary Taylor, CPA
Ohio Auditor of State



Transforming the Audit Process

Continued from page 1

systems to create and maintain audit documentation for years. Yet in 2007, Taylor found the Auditor's Office systems relying on hard copy, hand-processed workpapers — a cumbersome and costly way of doing business.

As a result, she initiated an effort to modernize operations. After an initial planning and development stage, the Auditor's Office officially launched its Audit Management Transformation Project in the spring of 2009. This project assessed the audit processes at the Auditor's Office and the potential benefits of an electronic work paper system.

“At a glance, any auditor on a project can see what has been completed and what hasn't, as well as what has been approved and what hasn't.”

“Almost all big firms already utilize electronic software,” Pat Wooldridge, assistant chief deputy auditor with the Auditor of State's Office, said. “This brings us to where we need to be according to industry standards.”

This collaborative effort involved representatives from every regional office and all divisions of the Auditor of State's Office. These “champions” helped

identify areas where efficiency could be improved, developed the system requirements, assisted with integration and implementation, tested the pilot program, and created and led training programs.

“By having representatives from all of the regions and audit divisions, it built consensus,” Wooldridge said. “Everyone felt involved.”

As a result of the project, the new protocol and software now enable state auditors to produce more consistent, higher quality audits.

Over time, these increased efficiencies may even allow the Auditor of State's Office to pass on potential cost savings to the local government entities being audited.

“Our clients should see the same level of client interaction and the same level of auditor supervision, but the process will just be more efficient,” said Randy Cole, director of audit services and technology with the Auditor of State's Office.

The Auditor's Office partnered with the firm of Deloitte to examine current auditing processes and identify how existing audit management software could be customized to fit the needs of state auditors.

“Three years from now, no one is going to believe we did it any other way. It’s going to be dynamite.”

“We wanted to match the technology to exactly what we wanted it to do,” Cole said.

The final program, TeamMate, includes templates for audit papers for each division, audit resources, remote access, a detailed review process and increased tracking capabilities.

“At a glance, any auditor on a project can see what has been completed and what hasn’t, as well as what has been approved and what hasn’t,” Wooldridge said.

In addition to software, the Audit Management Transformation Project included an extensive review of current auditing processes and established a new protocol for auditors. This protocol, outlining the policies and procedures for the Auditor’s Office, is integrated into the software itself, along with guidance for auditors.

“An audit is still an audit,” Wooldridge said. “Software is great, but it doesn’t do our work for us.”

Beginning in April 2010, the Auditor of State’s Office began training auditors on the new

software and protocol. After completing training, all new audits are initiated using the electronic work paper system.

While it will take time for auditors to fully adjust to the new protocol, other modernization projects have already resulted in savings.

A complimentary efficiency initiative by the Auditor’s Office examined the distribution of audit reports. As a result, the office tested sending audit reports electronically, rather than photocopying, hand-assembling and mailing them to entities. By January 2010, this was standard procedure, with the exception of those entities with restricted internet connections. This simple shift saves more than \$4 per audit report, resulting in total savings of between \$60,000 and \$80,000 annually in postage, paper and handling costs alone.

“After more than three years of hard work...we’re seeing real results.”

“After more than three years of hard work by my staff at every level, we’re seeing real results,” Auditor Taylor said. “By creating a more effective and productive work environment, we are significantly reducing the cost of our audit operations and providing important savings

for the state and local government entities we serve.”

As these new processes continue to be applied and refined, there will be additional potential benefits from the new procedures, including a possible reduction in billing hours and a potentially condensed audit timeline for many clients. However, no software can replace well-trained auditors, whose quality will only continue to improve as they become familiar with the new protocol.

“Clients should see the same auditors meeting with them,” Cole said. “But where we create efficiencies on our end, we can pass those along to our clients.”

The protocol and the software will continue to evolve to better meet the needs of auditors and entities alike. Along with the new protocol, the Auditor of State’s Office has designated program management officers to make sure protocols are used and updated.

“As we learn even more, we can make the process even better,” Wooldridge said. “Three years from now, no one is going to believe we did it any other way. It’s going to be dynamite.” ■

Auditor of State Mary Taylor, CPA

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\$41 Million in

SPOTLIGHT:

By Julia Debes

Auditor of State Mary Taylor has issued \$41,454,006.11 (updated 11/09/10) in findings for recovery since she took office on January 8, 2007. By definition, a finding for recovery is a determination by an auditor that money should be repaid because it was improperly spent, unaccounted for, uncollected or misappropriated.

“The theft or misuse of more than \$41 million from Ohio’s taxpayers is a serious issue,” Taylor said. “I’m very proud of all the work our auditors do to make sure that each taxpayer dollar is spent according to its intended purpose.”

Findings for recovery can vary greatly. Some findings for recovery are not complicated – like a simple miscalculation or money collected but not deposited – while others involve elaborate schemes, such as complex collusion including falsification of records, forgery and outright theft.

Findings for recovery can be an indication of fraud – like when public property is converted for personal use. But, they can also be the result of a lack of documentation, bookkeeping mistakes or a change in the law that an entity has failed to institute.

In most cases, findings for recovery are identified during a routine financial audit. In others, a special audit is conducted specifically to investigate an allegation that theft or fraud has occurred.

No matter the size, complexity or intent of the finding for recovery, it should be repaid.

When a finding for recovery is issued in an audit report, it is up to the individual or the entity to make restitution.

Many times, findings for recovery are repaid during the course of the audit. However, it is important to note that a finding for recovery does not automatically result in the restoration of funds to their proper place. The Ohio Auditor of State issues the report, but legally has no recourse to pursue the findings once the audit is complete. If findings are not repaid, the funds can be pursued by the local prosecutor or the Ohio Attorney General’s Office. ■

**LACK OF DOCUMENTATION:
Harmony Community School,
Hamilton County**

From FY 2005 to FY 2009, Harmony Community School did not maintain documentation for state curriculum requirements, including student residency, school attendance records and minimum instructional hours. Additionally, some school employees were overpaid or used school money for personal use. In all, the fiscal years 2005-2009 financial audits identified \$3,595,168.17 as findings for recovery for public monies illegally expended.

**FRAUD:
Stark County Treasurer’s Office,
Stark County**

From 2003 to 2009, Stark county’s former chief deputy treasurer stole \$2,964,560 in cash from the county vault, including cashing two checks worth \$230,000. He also altered and falsified financial records. Auditors uncovered the theft while conducting the county’s annual audit in March 2009 and issued a finding for recovery for public money illegally expended. In June 2010, he pled guilty to one count of conspiracy and one count of fraud.

FRAUD \$2,964,560.00

**MEDICAID BILLING ERRORS:
Access Transit Company,
Franklin County**

In 2008, a Medicaid Contract audit showed Access Transit Company, a transportation provider, improperly billed Medicaid from 2002 to 2005 for duplicate services, transports of deceased patients, incorrect mileage and services not covered. As a result, a finding for recovery was issued for \$1,152,801.21, plus \$234,981.95 in accrued interest. In 2006, the company discontinued operations.

Total Findings for Recovery

issued by Auditor of State Mary Taylor

FALSE CLAIMS:

Ministerial Day Care Association, Cuyahoga County

The Ministerial Day Care Association improperly received funding from Ohio's Head Start program between August 1, 1998 and July 31, 2001 by submitting claims for more children than were actually enrolled. Overall, the Auditor of State's Office issued a finding for recovery for \$7,506,365 for public money illegally expended for 1,747 children that the provider could not document as enrolled and in attendance.

UNALLOWABLE EXPENDITURE:

Village of Alexandria, Licking County

In FY 2007, the administrator of the village of Alexandria was reimbursed for three kegs of beer she had purchased for a community event. Because alcoholic beverages are not considered a proper public purpose for the expenditure of public funds, a finding for recovery for public money illegally expended was issued. The \$195 finding was repaid.

PAYROLL MISCALCULATION:

Goshen Township, Clermont County

During 2007 and 2008, Goshen Township had errors in its payroll calculation, resulting in a total of \$533 in overpayments to three fire department employees. Since these employees received overtime pay for hours they had not worked, findings for recovery for public monies illegal expended were issued. All three findings were repaid.

PUBLIC FUNDS UNACCOUNTED FOR:

Bellaire Local School District, Belmont County

For the 2005-06 school year, the 8th and 9th grade cheerleaders had to pay the school for shoes and costs to attend a cheerleading camp. The advisor collected these fees, but failed to turn in some of the funds. Because the \$1,800 was unaccounted for, it was issued as a finding for recovery that was repaid.

UNCOLLECTED FUNDS:

Village of Buchtel, Athens County

In 2003, the state legislature increased costs charged in mayor's courts from \$11 to \$15. The village of Buchtel did not raise its court fee, so the mayor's court issued 749 tickets at the lower rate from September 2003 to December 2006. As a result, the village owed \$2,996 to the state. This was issued as a finding for recovery for public monies due but not collected. The village repaid the finding.

MISAPPROPRIATED

PUBLIC PROPERTY:

Washington County

The former maintenance supervisor of Washington County authorized the purchase of light bulbs and chemicals in exchange for kickbacks. The FY 2009 audit uncovered the scheme and issued a finding for recovery for public property converted or misappropriated for \$67,593. In August 2010, he was sentenced on one count of theft in office to three years in prison and ordered to pay \$62,000 in restitution.

ELABORATE FRAUD:

Clyde-Green Springs Exempted Village School District, Sandusky County

The former district superintendent of Clyde-Green Springs Exempted Village School District, established elaborate schemes to steal school money, including misappropriating funds from six school booster clubs and creating fake companies. A 2008 special audit uncovered \$295,676 in school funds stolen and issued a finding for recovery for public money illegally expended. In January 2010 he was sentenced to eight years in prison and ordered to pay \$380,599.68 in restitution and investigation costs.



60-Day Financial Audit Project

By Julia Debes

As a certified public accountant, Auditor of State Mary Taylor knows that timely financial audits are critical for effective decision making and improved performance in any public or private operation. That's why, since taking office in January 2007, she has worked to implement a number of new and more efficient ways for state auditors to serve their clients. The goal of one such initiative has been to test the possibility of completing school district audits within 60 days of the fiscal year's end.

"The timelier an audit, the better it is for everyone involved," said Pat Wooldridge, assistant chief deputy auditor at the Ohio Auditor of State's office. "When the entity receives a more rapid turn-around of audit information, they can more quickly improve their operations in accordance with the audit's recommendations."

To judge the potential for a 60-day audit turn-around, Taylor's office selected five school districts to participate in a pilot project beginning in July 2009. In 2010, a total of 11 districts were selected for a second trial.

Because the fiscal year for Ohio school districts ends on June 30, pilot project audits were conducted in July and August, when school was not in session. This timeframe not only allowed auditors to complete audits more quickly in most cases, but also gave fiscal officers additional time to devote to their other

responsibilities during the schools' busy fall season.

In a typical school district audit, financial auditors first test cash flow and payroll, then wait for the district to prepare GAAP financial statements, most often with assistance from the Auditor of State's Local Government Services section (LGS). Financial auditors then return and the audit is completed. The full process typically requires four to seven months. In the 60-day audit process, auditors from the Financial Audit and Local Government Services (LGS) sections of the Auditor of State's office worked together to complete all their assignments at the same time.

Because the GAAP conversion and auditing processes were performed concurrently, there was immediate resolution of questions and adjustments.

"We didn't do anything different than we would do in a regular cycle," Unice Smith, chief of LGS,

said. "But having everyone working together at the same time really expedited the auditing process."

Smith and Wooldridge both stressed that for the 60-day audit process to succeed, all parties – state auditors and school fiscal officers – must be committed to dedicating the entire 60 days to a single project.

Bob Hinkle, chief deputy auditor at the Ohio Auditor of State's office, explained, "We can demonstrate that GAAP conversions and audits can be done over a shorter span of time, but it requires a change in current practices."

Hinkle emphasized that the 60-day process is not feasible or even desirable for every entity, and not every audit can be completed within 60 days. However, success of the pilot project demonstrates the potential for expanding the program in future years or offering even shorter timeframes when appropriate.

"The timely audits completed in these pilots saved clients money, gave management a quality product to utilize in decision making and provided better information for the public," he said. ■

UPDATE: Agreed Upon Procedures = Agreeable Savings

By Jeannie M. Foley

An initiative launched by Auditor of State Mary Taylor earlier this year has already saved hundreds of smaller government entities in Ohio nearly \$500,000 in audit costs, and that's just for starters.

As detailed in the Spring 2010 edition of *Best Practices*, this new program offers qualifying entities an attractive alternative to a standard financial audit. The new option is a less costly engagement known as an Agreed Upon Procedure (AUP). To date, more than 300 smaller government entities – including townships, villages, public libraries and agricultural societies – have qualified for and chosen an AUP. About 100 additional AUPs are now being completed, promising an even greater total savings when all the results for 2010 are in.

While individual results have varied, the total savings to clients who chose AUPs are nearly \$500,000 when compared to the previous financial audit. On average, costs have been reduced approximately 40 percent for those who have opted for an AUP, and in some cases the savings are even higher.

Some examples:

- Village of New Middletown (Mahoning County) saved more than \$7,000 with an AUP – a better than 40 percent savings

- Village of Hills and Dales (Stark County) saw savings of more than \$5,000 – a 60 percent reduction in costs
- Ohio Township (Gallia County) reduced their costs by more than \$3,000 - a better than 70 percent savings
- Jackson Township (Champaign County) saved more than \$3,000 - a more than 60 percent reduction in costs

In each case, savings are computed by comparing this year's AUP cost to charges for the previous financial audit. For more details about the AUP option, including eligibility requirements, see the Spring 2010 *Best Practices* newsletter or *Auditor of State Bulletin 2009-012*. ■

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