

**Ohio Auditor of State**

Top 10 Audit Comments

Presented by:  
Ashley Perry, MBA

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**Agenda**

- Types of Audit Comments
- Common comments

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**Terminology**

- GAGAS
  - Generally Accepted Government Auditing Standards
  - Comments affecting the financial statements
  - aka: the Yellow Book
- Single Audit
  - The Single Audit Act of 1984 (amended in 1996) – applicable if entity expends \$750,000 of federal dollars in 1 year.
  - Comments affecting federal programs
- Noncompliance = Citation
- Recommendation = Internal Control Deficiency

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## Levels of Audit Comments

- Report Level
- Management Level
- Verbal

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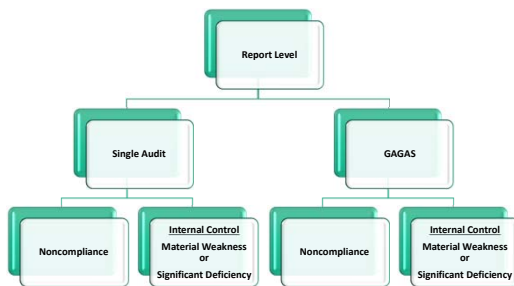
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## Types of Audit Comments



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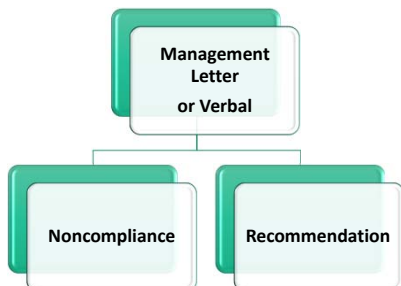
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## Types of Audit Comments



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## Noncompliance Examples

Federal Code of Regulations (CFR)	Grant Agreement	United States Code (USC)
Federal & State Court Decisions	Ohio Administrative Code (OAC)	Ohio Revised Code (ORC)
Ohio Constitution	Ohio Ethics Commission Opinions	Local Ordinance, Policy, Resolution, etc.

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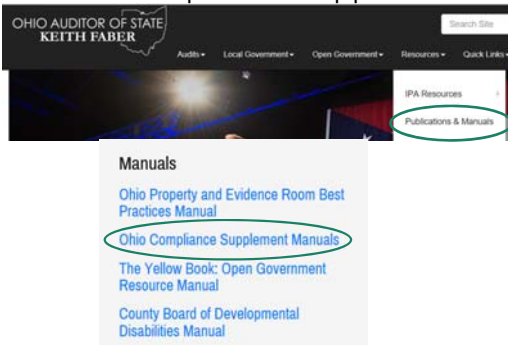
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## Ohio Compliance Supplement



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## Ohio Compliance Supplement

### Ohio Compliance Supplement Manuals

2018

- Ohio Compliance Supplement Implementation Guide (PDF)
  - Exhibit 3 Compliance ACE (Microsoft Word)
- Ohio Compliance Supplement Manual (PDF)
  - Chapter 1 - Direct Laws (PDF) (Microsoft Word)
  - Chapter 2 - Indirect Laws and Statutorily Mandated Tests (PDF) (Microsoft Word)
  - Chapter 3 - Stewardship (PDF) (Microsoft Word)
- Optional Procedures Manual (Microsoft Word)

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# Ohio Compliance Supplement

Matrix 3

Chapter 1: Direct Laws

Step No.	Requirement	County	Township	City	Village	Traditional Schools	STEM Schools	Community School
1-1	ORC 5705.30 - Annual appropriation measure	✓	✓	✓	✓	✓		
1-2	ORC 5705.41(D) and 5705.42 - Restrictions on the expenditure of money including "blanket" fiscal officer certificates	✓	✓	✓	✓	✓		
1-3	ORC 5705.42 - Amending or supplementing appropriations; contingencies	✓	✓	✓	✓	✓		
1-4	ORC 5705.09 - Establishing funds; and 5705.12 - Permission to expend funds	✓	✓	✓	✓	✓		
1-5	Various ORC 5705 Sections, 5731.48 and 3315.20(A) - Distributing revenue derived from tax levies, etc.	✓	✓	✓	✓	✓		
1-6	ORC 5705.05-06 and 5705.14-16 - Transfer of funds	✓	✓	✓	✓	✓		
1-7	AOS Bulletin 97-003 and various ORC 5705 Sections - Advances	✓	✓	✓	✓	✓		
1-8	ORC 5705.13 and 5705.132 - Reserve balance accounts and funds	✓	✓	✓	✓	✓		
1-9	ORC 5101.144 - County Children Services Fund	✓						

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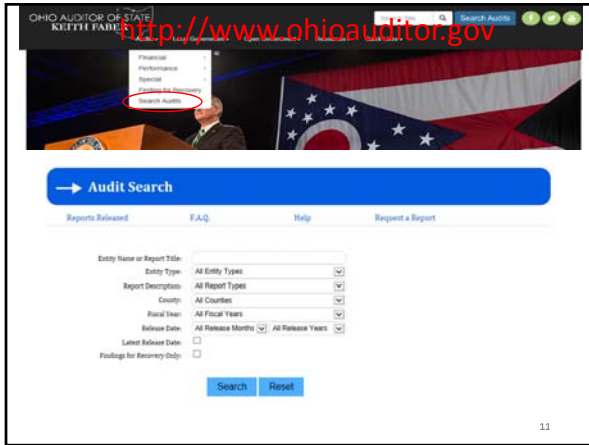
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# Example Noncompliance Citation

FINDING NUMBER 2016-002

**Material Weakness/Noncompliance**

**Ohio Revised Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required meeting any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Only the subdivision's fiscal officer need sign the certificate. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

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## Example Internal Control Comment

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2016-001

Material Weakness - Fund Balance Classification

Governmental Accounting Standards Board (GASB) Statement No. 54 established criteria for reporting governmental fund balances based on constraints placed upon the use of resources reported in the governmental funds. The five classifications are nonspendable, restricted, committed, assigned, and unassigned.

Assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed such as encumbrance within the general fund. When an appropriation measure is adopted for the subsequent year and a portion of existing fund balance is included as a budgetary resource (appropriated for general fund uses or appropriations exceed estimated receipts), then that portion of fund balance should be classified as assigned.

The 2017 appropriations approved of \$127,818 exceeded the 2017 Estimated Revenues of \$91,279 by \$36,539. The 2016 appropriations of \$121,682 exceeded the 2016 Estimated Revenues of \$86,189 by \$35,503. \$36,339 and \$35,503, at December 31, 2016 and 2015, respectively, should have been classified as assigned due to using the carryover fund balance to cover the remaining amount of appropriations.

Committed fund balances include amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (such as an ordinance or resolution).

The Board of Trustees approved using inside millage for road and bridge improvements and maintenance purposes. These amounts have been stated into the Road and Bridge Fund. The Township reported the Road and Bridge fund balance of \$68,753 at December 31, 2015 and \$118,065 at December 31, 2016 as "restricted" instead of "committed". Also, at December 31, 2015 and 2016, the Township reported the Capital Projects fund balance of \$97,561 as "restricted" instead of "committed". This should be committed due to the transfers from General Fund.

A final review of the financials may have detected this error. Adjustments for 2016 and 2015 were recorded in the accompanying financial statements to correct these errors.

In order to ensure the Township's governmental fund balances are reported in accordance with GASB 54,

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## Common Noncompliance Citations

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## Common Noncompliance Comment

ORC 5705.41 (D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the Treasurer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only the subdivision's fiscal officer. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

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### Common Noncompliance Comment

5705.10 (C) requires that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

In addition to property tax monies being assessed and collected for the levies, the State of Ohio reimbursed taxing subdivisions for homestead and rollback. These revenues were derived and allocated upon property tax levies.

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### Sample Property Tax Settlement

TX/RT	RT/RT	REAL	FUND	PROP	TOTAL	A/T/REA	RECPTS	BILLBACK	2.5A-5.9	HOMESTEAD
WELLS	WELLS	RECPTS	RECPTS	RECPTS	DETAC		NET-GP-FUND			
118	A.S.M.S.	0.00	3042.78	306.10	3348.88	38.27	3308.99	532.83	66.75	214.08
		1.24880000			32.36 D	1.42				
119	2018/	0.00								
		1.79180000	2849.17	612.20	3461.37	38.84	3420.01	499.23	43.75	200.64
		1.97719821			30.22 D	1.52				
120	THE CURRENT EXPE	0.00								
		1.40000000	15089.24	1101.96	16191.20	185.38	15997.18	2646.43	231.84	1063.17
		1.40000000			160.29 D	0.06				
			20,980.18	2,520.24	281.09		22,726.18	3,478.53	322.34	1,477.81
					0	11.18				

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### Common Noncompliance Comment

**Ohio Revised Code §5705.39** states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals.

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## Common Noncompliance Comment

**Ohio Rev. Code § 5705.41(B)** states, in part, that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated.

Total disbursements and outstanding commitments exceeded appropriations in the Water Fund by \$45,557 in 2016. As a result, there was an increased risk of the Township incurring deficit cash balances.

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## Common Noncompliance Comment

**Ohio Rev. Code § 505.24(C)** sets forth the method by which township trustees' compensation should be allocated. This section is further clarified by Ohio Attorney General (OAG) Opinion 2004-036.

For salaries not paid from the General Fund, pursuant to OAG Opinion 2004-036, trustees are required to establish administrative procedures to document the proportionate amount chargeable to other Township funds based on the kinds of services rendered. The "administrative procedures" can be time sheets or a similar method of record keeping, as long as the trustees document all the time spent on Township business and the type of service performed, in a manner similar to trustees paid per diem compensation. If trustees do not document their time, then no part of salaries may be paid from these other funds.

Also, as clarified in Auditor of State Bulletin 2013-002, township officials are required to attend board meetings in order to conduct the regular business of the township. Attendance at board meetings and other activities supporting the general business of the township must be allocated to the general fund; therefore, the allocation of 100 percent of an official's compensation to funds other than the general fund is not permitted under Ohio law.

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## Common Noncompliance Comment

**Ohio Revised Code Section 149.43(E)(1)** states, in part, all elected officials or their appropriate designee shall attend training approved by the attorney general as well as that all public offices shall adopt a public records policy in compliance with this section for responding to public records requests. In adopting a public records policy under this division, a public office may obtain guidance from the model public records policy developed and provided to the public office by the attorney general under section 109.43 of the Revised Code.

**Ohio Revised Code Section 149.43(E)(2)** further states, in part, that public office shall create a poster that describes its public records policy and shall post the poster in a conspicuous place in the public office and in all locations where the public office has branch offices. The public office may post its public records policy on the internet web site of the public office if the public office maintains an internet web site. A public office that has established a manual or handbook of its general policies and procedures for all employees of the public office shall include the public records policy of the public office in the manual or handbook.

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### Common Noncompliance Comment

Ohio Rev. Code § 117.103 (B) (1) states that a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment.

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### Common Noncompliance Comment

Section 117.38, Ohio Revised Code requires cash basis entities to file complete annual reports via the Hinkle System within 60 days of the fiscal year end. To be considered complete, the regulatory filing must contain a statement or statements of receipts, disbursements and changes in fund balance – governmental, proprietary and fiduciary fund types and notes to the basic financial statements.

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### Annual Financial Statement Filing

For regulatory entities:

<http://www.ohioauditor.gov/references/shells/regulatory.html>

For OCBOA entities:

<http://www.ohioauditor.gov/references/shells/gasb34ocboa.html>

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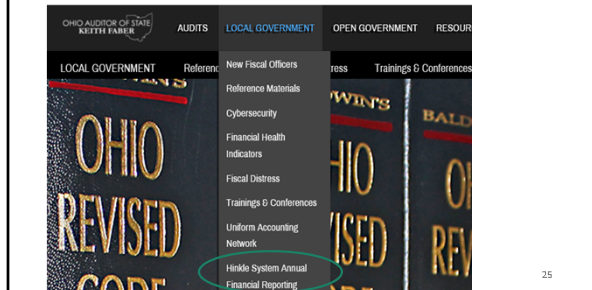
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## Annual Financial Statement Filing

On our web page: <http://www.ohioauditor.gov/>



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## Annual Financial Statement Filing



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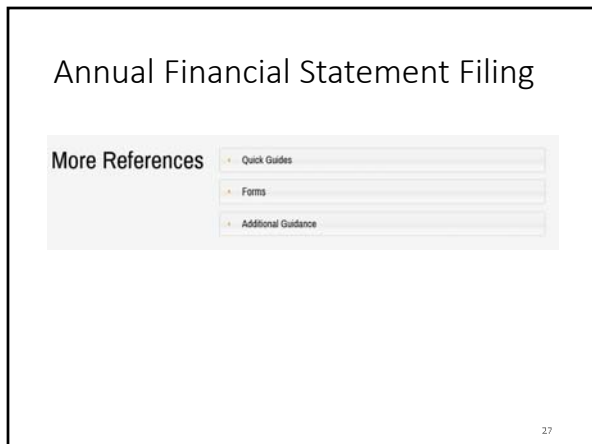
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## Annual Financial Statement Filing



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## Common Noncompliance Comment

Ohio Rev. Code Section 135.22 states that annually a treasurer shall complete continuing education programs to enhance the background and working knowledge of investments, cash management, and ethics, unless the treasurer provides annually to the Auditor of State a notice of exemption. The notice shall be certified by the Treasurer of State and shall provide that the treasurer is not subject to the continuing education requirements.

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## Common Internal Control Issue

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## Internal Control Comment

### Financial Reporting

The Township should have procedures and controls in place to prevent and detect errors in the financial statements and accounting records to help assure that the information provided to the users is complete and accurate. The following errors were identified in the accounting records and/or financial statements....

See the AOS website at:  
<http://www.ohioauditor.gov/publications.html>  
For the Ohio Township Handbook

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## Internal Control Issues

### Accounting System deficiencies - Budgetary

The Township did not have a control in place to ensure that amended certificates as authorized by the Board of Trustees reconciled to estimated resources that were posted to the accounting system. This resulted in incorrect amounts being posted to the accounting system for the General Fund and the Road & Bridge Fund in 2017.

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## Runners Up

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## Noncompliance

**Ohio Rev. Code § 121.22(C)** states in part the minutes of a regular or special meeting of the Township shall be promptly prepared, filed and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions held in executive sessions.

During the period, the Township did not maintain minutes that were able to accurately reflect the actions the Council took during its meetings. Information excluded from the minutes is comprised of the following:

- Approving bank reconciliations
- Approving salary schedules for four part time employees.
- Approving compensatory time disbursements

Not adequately maintaining a complete record of Township meetings can result in violations of the Sunshine Law and increase the risk of unallowable activity occurring.

The Township should develop additional procedures to help ensure all actions taken during meetings of public session are properly recorded in the meeting minutes.

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## Internal Control

### Segregation of Duties:

The small size of the Township's staff does not allow for an adequate segregation of duties; the Fiscal Officer must perform all accounting functions. It is therefore important that the Board of Trustees and the Audit Committee monitor financial activity closely.

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## Internal Control

### Policy Deficiencies

A policy manual is essential to assure that key areas of operations are fully documented (in written form) and understood by employees, management and elected officials. The Township did not have policies governing the following items which are utilized by the Township's employees during the course of their employment:

- Credit Card Policy
- Petty Cash Policy
- Prohibited Political Activities / Outside Employment Policy

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Questions??



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**Local Government Officials  
Conference**

88 East Broad Street  
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Email: arperry@ohioauditor.gov

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