



IPA CONFERENCE

September 14, 2022

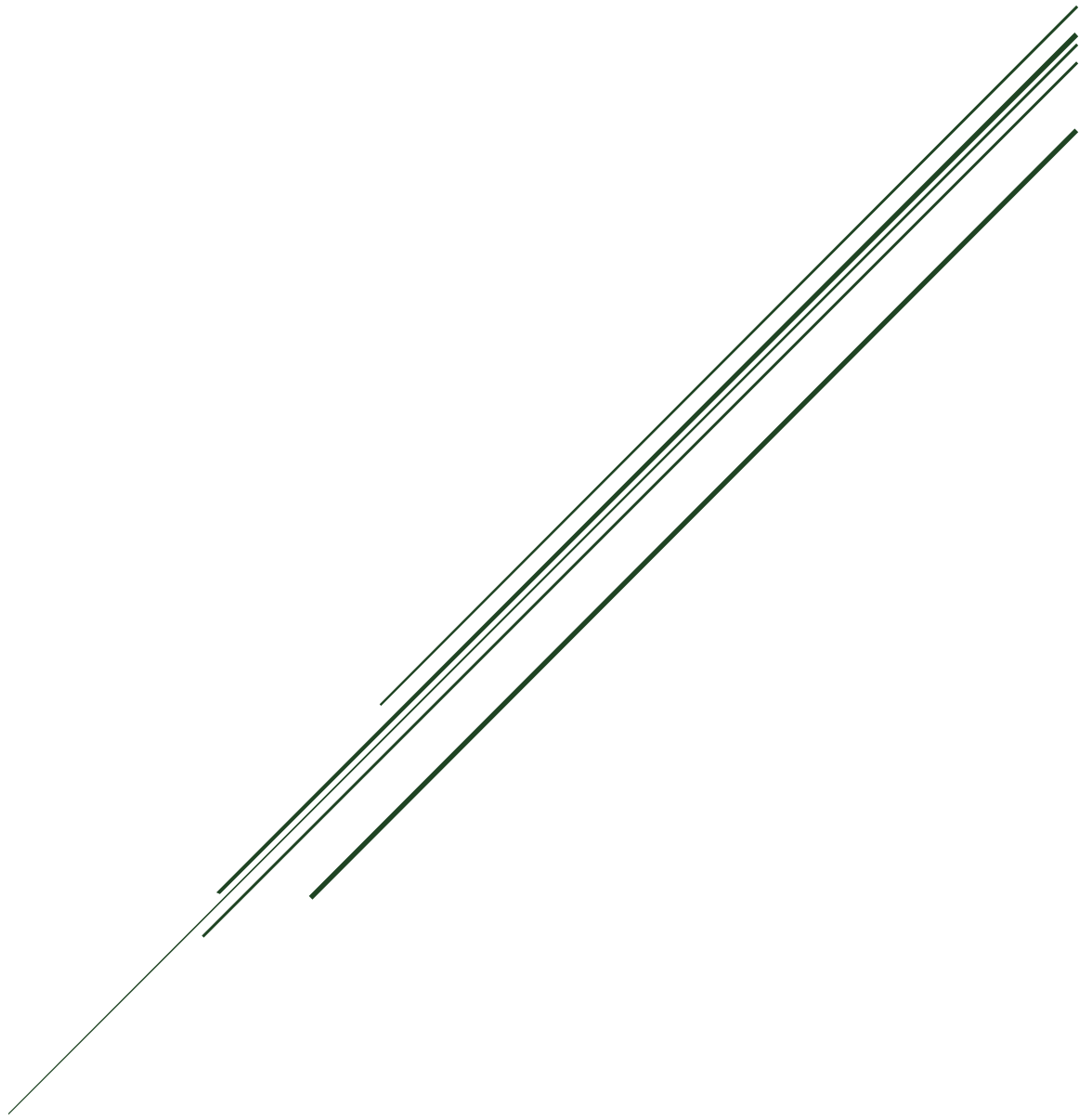
**Presentation Slides &
Handout Material**

OHIO AUDITOR OF STATE
KEITH FABER



FEDERAL UPDATE

Slides



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Federal Update

2022 IPA Conference
September 14, 2022

Presented by: Teresa Hicks, MBA
Quality Assurance and Technical Specialist
And Single Audit Coordinator

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Agenda

Single Audit Guide

2022 Compliance Supplement

AI#21.027
Alternative Compliance Examinations

AOS Resources

Miscellaneous Reminders

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AICPA Audit Guide: Government Auditing Standards and Single Audits

See Appendix C, Schedule of Changes Made to the Text From the Previous Edition

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Sample Engagement Letter Language

Appendix B

- Sample Engagement Letter Language Related to Portals and Hosting Services to the Guide

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Disclaimer Opinion

Example 13-7

- Added a Disclaimer Opinion for the Single Audit Report on Compliance

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2022 OMB Compliance Supplement Changes

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Website Links

There were MANY updated web links throughout the compliance supplement.

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Nutrition Cluster
AL# 10.553, 10.555, 10.556, 10.559, 10.582

Removed AL# 10.579 Child Nutrition Discretionary Grants Limited Availability

Added AL# 10.582 – Fresh Fruits and Vegetable Program

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Cluster Changes and Higher Risk Designations
2022 Compliance Supplement Part 8 Appendix VII

Addition of a New Program to an Other Cluster

One of the criteria for an "other cluster" to be considered a low-risk Type A program is that it must have been audited as a major program in at least one of the two most recent audit periods ("2-year look back" under 2 CFR section 200.518(c)(1)). In the year that this Supplement adds a new program to another cluster listed in Part 5, the determination of whether the resulting other cluster meets the 2-year look back criterion requires additional consideration. During that year, the other cluster cannot qualify as having been audited as a major program in one of the two most recent audit periods unless the auditee's current-year expenditures for the newly added program were less than or equal to 25 percent (0.25) of the Type A threshold, or all of the programs included in the resulting other cluster met the "2-year look back" criterion. The additional criteria in 2 CFR section 200.518(c) must also be evaluated by the auditor to determine if the other cluster can be considered a low-risk Type A program in the current year.

In years after this Supplement adds a program to another cluster, such addition in a prior year does not require additional consideration for the 2-year look back criterion.

The following examples are intended to illustrate consideration of the addition of a new program to another cluster. They are illustrative only and not based on the contents of the current Supplement.

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Nutrition Cluster
AL# 10.553, 10.555, 10.556, 10.559, 10.582

US Food Products

- Commodities - To the maximum extent practicable, school food authorities must purchase commodities produced in the United States and food products processed in the United States substantially using commodities produced in the United States.
- NSLP - These programs must purchase domestic foods and food products processed in the United States substantially using domestic foods.
- SMP - SFAs must also purchase milk that is domestic and processing must occur in the United States.

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Nutrition Cluster
AL# 10.553, 10.555, 10.556, 10.559, 10.582

Removed Cash Management and Program Income from Pick 6

Added Reporting to Pick 6

- Financial Reporting
- FFATA (direct recipients)

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CDBG Cluster
AL# 14.218 and 14.225

<p>CDBG – Disaster Recovery CDBG – Mitigation</p> <ul style="list-style-type: none"> • New content for additional flexibilities, allowable activities and reporting. 	<p>CDBG - Coronavirus</p> <ul style="list-style-type: none"> • Added additional allowable activities.
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**CDBG State Additional Changes
AL#14.225**

CDBG Cluster Items
(Previous Slide)

Removed Eligibility from Pick 6.

Added guidance for Housing Recovery Program

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**Housing Voucher Cluster
AL#14.871 and 14.879**

New Section N Compliance Requirement

Subprograms/Program Elements on Emergency Housing Voucher Program

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**Education Stabilization Fund (ESF)
AL# 84.425**

General:

- **Major Program Determination:** Many auditees will have received and expended funds under multiple ESF subprograms. For major program purposes, auditors must evaluate 84.425 in its entirety. All ESF subprogram expenditures, even those expenditures of subprograms not addressed in this ESF Compliance Supplement, must be considered as part of the ESF program for major program determination purposes.

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**Education Stabilization Fund
AL# 84.425**

Section 1:

- Added AL# 84.425V - American Rescue Plan - Emergency Assistance to Non-Public Schools (ARP EANS) program
- Removed Cash Management and Program Income from Pick 6
- Added Matching, Level of Effort, Earmarking to Pick 6 including MOEquity
- Added New Section N for SEAs ONLY: Identifying Non-Public Schools under ARP EANS that Enroll a Significant Percentage of Students from Low-Income Families and are Most Impacted by the COVID-19 Emergency

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**Education Stabilization Fund
AL# 84.425**

Section 2:

- Added AL# 84.425P - HEERF Institutional Resilience and Expanded Postsecondary Opportunity (IREPO) Program
- Added AL# 84.425T – HEERF Supplemental Support Under American Rescue Plan (SSARP) Program
- Added Cash Management to Pick 6
- Added Additional Reporting Guidance
- Removed FFATA Requirement in Reporting

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**Education Stabilization Fund
AL# 84.425 – Section 2**

Construction and Real Property Expenditures under HEERF (a)(2) subprograms (Assistance Listings 84.425J, 84.425K, 84.425L, and 84.425M):

- Under the Consolidated Appropriations Act, 2022 (Pub. L. No. 117-103), as of March 15, 2022, HEERF (a)(2) program subgrantees may expend their HEERF (a)(2) grant funds on construction and real property for projects that are connected to the purpose of the ESF program to “prevent, prepare for, and respond to coronavirus.” Any HEERF (a)(2) grantees taking advantage of this flexibility will have to receive approval from ED for their specific construction and real property projects supported by HEERF (a)(2) grant funds. HEERF (a)(2) grantees cannot use their (a)(2) grant funds on construction or real property associated with facilities related to athletics, sectarian instruction, or religious worship.

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**Provider Relief Fund
AL# 93.498**

- Added American Rescue Plan (ARP) Rural Distribution to the Title
- Updated the Reporting Due Dates and Added Period 5 – Expenditures Jan 2022-June 2022
- Removed Compliance Requirement N from Pick 6

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**Child Care Development Fund (CCDF)
AL# 93.489, 93.575, 93.596**

Added Reporting Compliance Requirement to Pick 6.

- Note: To address program monitoring risk associated with the CCDF Stabilization grants, OMB has authorized HHS to add “Reporting” as a compliance requirement subject to audit.
- This requirement will be included as an additional requirement in the supplement until the CCDF Stabilization grants are fully expended.

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**Child Care Development Fund
AL# 93.489, 93.575, 93.596**

Stabilization Funds

- Segregated Activities Allowed for the use of the ARP Act Stabilization Funds
- Segregated Eligibility Requirements for the ARP Act Stabilization Funds with a reference in the Eligibility Compliance Requirement but added a Section N requirement for the testing of Child Care Provider Eligibility for ARP Act Stabilization Funds

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Child Care Development Fund AL# 93.489, 93.575, 93.596

Added Other Information Guidance

- Identifying funding sources within the CCDF Cluster
 - CARES Act – Additional CCDF Funds
 - CRRSA – Additional CCDF Funds
 - ARP – Additional CCDF Funds and Child Care Stabilization Funds
- SEFA and Major Program Determinations
 - Reported by the Lead Agencies

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Higher Risk Programs for 2022

2022 Compliance Supplement Part 8 Appendix IV

Agency	Assistance Listing (CFDA) Number	Title
Education*	84 425	Education Stabilization Fund
FCC*	32 009	Emergency Connectivity Fund Program
HHS*	93 461	Testing for the Uninsured
HHS*	93 498	Provider Relief Fund
HHS**	93 778/93 777/93 775	Medicaid Cluster
Transportation**	20 106	Airport Improvement Program
Transportation**	20 500/20 507/20 525/20 526	Federal Transit Cluster
Transportation**	20 315	National Railroad Passenger Corporation Grants
Treasury*	21 023	Emergency Rental Assistance
Treasury*	21 027	Coronavirus State and Local Fiscal Recovery Funds

Note:
 * These programs were created by one of the laws cited at the beginning of this section and are thus considered 100% COVID-19 funding.
 ** These programs were existing programs that received additional funding from one or more of the laws cited at the beginning of this section.

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Higher Risk Programs for 2022

2022 Compliance Supplement Part 8 Appendix IV

Type A Program Considerations

A "higher risk" designation will often result in a Type A program or other cluster being audited as a major program. However, an auditor is not precluded from determining that a "higher risk" Type A program or other cluster qualifies as a low risk Type A program if both of the following criteria are met:

1. the program otherwise meets the criteria for a low risk Type A program in section 200.518 of the Uniform Guidance; and
2. the percentage of COVID-19 funding in the program or other cluster during the non-federal entity's fiscal year is not material to the program or other cluster as a whole. For example, a recipient's schedule of expenditures of federal awards may include the Airport Improvement Program but the expenditures relevant to COVID-19 funding included in the program during the June 30, 2022, fiscal year end is not material. Alternatively, a recipient's schedule of expenditures of federal awards may include Education Stabilization Fund expenditures for the June 30, 2022, fiscal year end, which would be considered material because COVID-19 funding comprises the entire program.

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Part 8 Appendix VII – Other Audit Advisories

- Updated definition of COVID-19 Funding (See next slide)
- ACE Engagements
- DCF and Report Submissions

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Definition of COVID-19 Funding

As a result of the COVID-19 pandemic, many new federal programs have been established and funding has been added to existing federal programs from the following Acts:

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
- American Rescue Plan Act (ARP)

Funding arising from these sources, both to new and existing programs, is referred to as "COVID-19 funding," "COVID-19 programs," or "COVID-19 related awards" throughout this section. Refer also to Appendix IV, Internal Reference Tables, for a listing of programs with a "higher risk" designation, many of which involve COVID-19 funding, and for information about how that designation impacts the major program determination process.

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Alternative Compliance Examinations (ACE)

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DCF, Transition of the FAC, and Reporting

- Back to 9 month due date.
- The provider of the Federal Audit Clearinghouse (FAC) will change from Census to the General Services Administration (GSA) on October 1, 2023.
- Fiscal Year Ends 2021 – Report to Census.
- Fiscal Year Ends 2022 – Report to GSA beginning Oct 1, 2023.
- Census FAC will remain in effect through 2022 engagement periods and GSA will be in place for 2023 and subsequent.
- FYI: If it is not possible to meet the 30-day aspect of that requirement due to the timing of the opening of the GSA FAC for submissions, the audits will not be considered late if they are submitted within nine months after the end of the audit period.

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AL #20.027 Alternative Compliance Examinations

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Alternative Compliance Examination Engagement

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Purpose

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Practice Aids Available on the Internet

Eligibility Checklist

Report Shell

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Eligibility Checklist and Report Shell Location

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Eligibility Checklist and Report Shell Location

Reference Materials Quick Links

- GASB 84
- GASB FA25
- Ohio Compliance Manuals
- Financial Statement Shells & Footnotes
 - GAAP
 - GASB 44 – Tables
 - OIC/OA
 - Regulatory
 - Specialized Footnotes
- Single Audit Practice Aids & Report Shells
 - Federal Award Compliance Control Records (FACCR)
 - Aggression Procedure Shells
 - Audit Report Shells
 - FTE 12/21/21 & Subseq
 - Prior to FTE 12/21/21
- Additional Audit Guidance
- Ohio Laws & Rules
- Publications & Manuals

**AL #21.027 State and Local Fiscal Recovery Fund
Alternative Compliance Examination Practice Aids**

A brief discussion on the benefits of performing an Alternative Compliance Examination Engagement rather than a full Single Audit is available on demand.

- #21.027 Alternative Compliance Examination Eligibility Checklist (pdf)
- #21.027 Alternative Compliance Examination Report Shell (docx)

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Is a SEFA Required?

**Schedule of Federal Awards Expenditures
(SEFA) Not Required**

- *Total Federal expenditures must be verified to determine eligibility.*

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Eligibility

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Client Discussion

Eligible

→

Client Agrees

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Controls

The requirements for internal control in 2 CFR 200.514(c) **are not relevant to the engagement**, although AT-C 315, paragraph .15, **still requires the practitioner to obtain an understanding of relevant portions of internal control over compliance** sufficient to plan the engagement and to assess control risk for compliance with specified requirements.

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What are auditors testing?

Very Limited Testing

Costs were *not* ineligible

Costs treated consistently with established practices

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What are auditors testing?

Negative Assurance

Verify expenditures were *not* for one of the program-wide ineligible uses

- Offset Reduction in Net Tax Revenue (State Level)
- Deposits into Pension Funds
- Debt Service or Replenishing Reserves (Rainy Day Funds)
- Satisfaction of Settlement / Judgement
- Undermine Efforts to Stop Spread of COVID-19

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Procurement

Auditors are **NOT** testing procurement.

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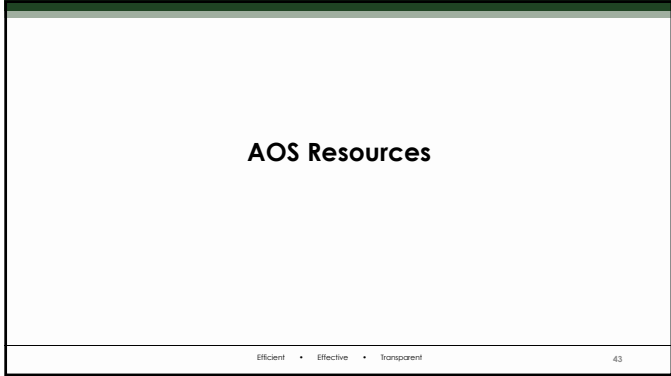
Reporting

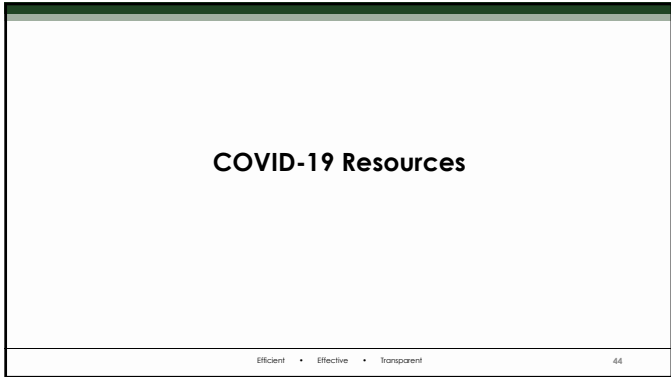
Issue Opinion on Compliance Requirements A and B

Findings – written with required elements

Treasury Filing

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COVID-19 Resources

- Auditor of State Bulletins related to COVID-19
- Uniform Accounting Network (UAN) User Notes
- Auditor of State Advisory Memos related to COVID-19
- Additional Resources Guidance from Other Sources Weblinks

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Fiscal Tracking

Pandemic Response and Accountability Committee

Pandemic Oversight and Reporting

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For Clients (Guidance for Clients)

<p style="text-align: center; font-size: small;">Federal Assistance and Financial Statement Reporting</p> <ul style="list-style-type: none"> • Coronavirus Federal Assistance Tracker 	<p style="text-align: center; font-size: small;">Guidance Graphics</p> <ul style="list-style-type: none"> • Subrecipient vs beneficiary • Lost Revenue • First Time Single Audit 	<p style="text-align: center; font-size: small;">Documents and Links to Assistance in Understanding</p> <ul style="list-style-type: none"> • ESSER and School Funding • Federal Procurement • State and Local Fiscal Recovery Funds • Single Audit • Other and Archived
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FAQs

Auditor of State

Current

Archived

Other Sources

AICPA State and Local Government Expert Panel (SLGEP) FAQ

Treasury Guidance and FAQs

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Contacts

Questions about COVID-19

- Ohio Health Department Contact


Need an Auditor of State Representative

- Regional Auditor Contacts

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Infrastructure Investment and Jobs Act Resources

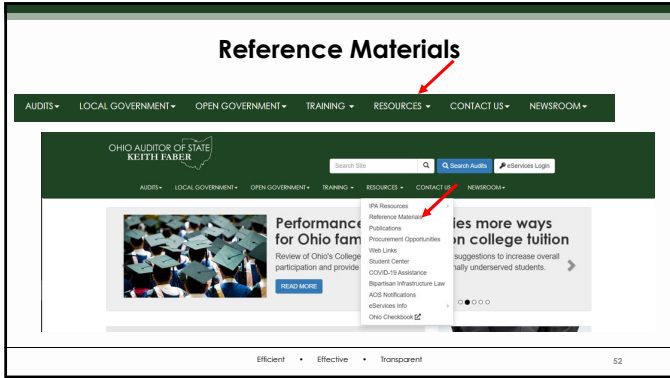
<https://ohioauditor.gov/>

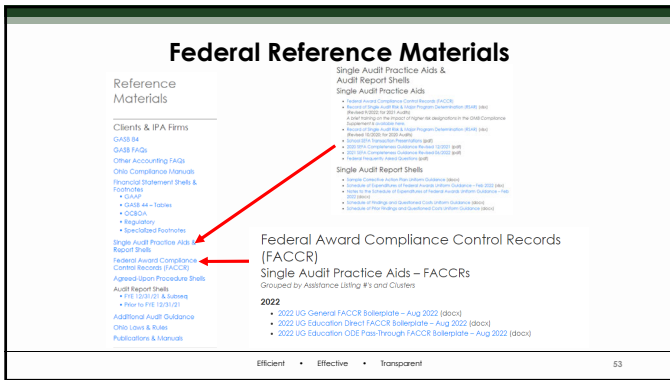


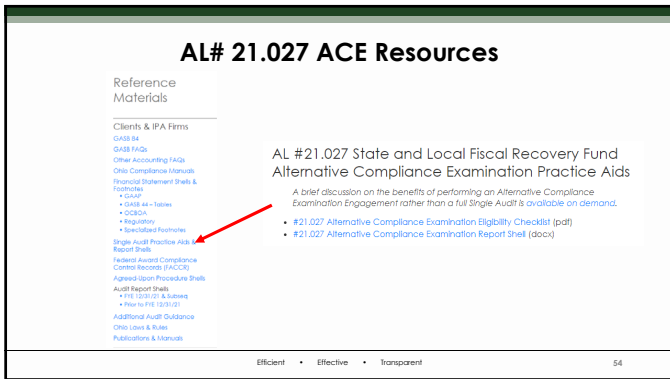
Infrastructure Investment and Jobs Act

[Read More](#)

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AL# 21.027 Resources

Reference Materials

Clients & IPA Firms

GAAS 84

GAAS FAQs

Other Accounting FAQs

Ohio Compliance Manuals

Financial Statement Shells & Footnotes

- GAAP
- GAAS 44 – Taxes
- GASB
- Regulatory
- Specialized Footnotes

Single Audit Practice Aids & Report Shells

Federal Asset Compliance Control Records (FACCR)

Agreed-Upon Procedure Shells

Audit Report Shells

- FTR 12/31/21 & Issues
- Prior to FTR 12/31/21

Additional Audit Guidance

Ohio Laws & Rules

Publications & Manuals

- **#21.027 State and Local Fiscal Recovery Fund 2021 – Feb 2022 (docx)**
 - [Optional testing template](#) for Coronavirus State & Local Fiscal Recovery Fund
 - Watch a brief webinar on the optional [SLFRF testing template](#)

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AL# 21.019 Resources

Reference Materials

Clients & IPA Firms

GAAS 84

GAAS FAQs

Other Accounting FAQs

Ohio Compliance Manuals

Financial Statement Shells & Footnotes

- GAAP
- GAAS 44 – Taxes
- GASB
- Regulatory
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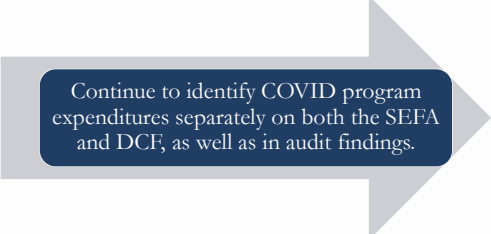
- **#21.019 Coronavirus Relief Fund for the 6 Direct Recipients and Their Subs 2021 – Feb 2022 (docx)**
 - Watch a brief training on how to select the appropriate Coronavirus Relief Fund FACCR
- **#21.019 Coronavirus Relief Fund from OBM and Other Local Government Pass-Through Entities – Feb 2022 (docx)**
- **#21.019 Coronavirus Relief Fund from ODE 2021 – Feb 2022 (docx)**
- **#21.019 Coronavirus Relief Fund, Combined FACCR 2021 – Feb 2022 (docx)**

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Miscellaneous Reminders

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COVID-19 Programs - Reporting



Continue to identify COVID program expenditures separately on both the SEFA and DCF, as well as in audit findings.

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Bulletin 2021-004
<https://ohioauditor.gov/publications/bulletins/2021/2021-004.pdf>
Separate Accountability for Federal Programs Authorized by the American Rescue Plan Act of 2021

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Treasury FAQs

Last Updated
 July 27, 2022
[SLFRF-Final-Rule-FAQ.pdf \(treasury.gov\)](#)

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Email Address

FYI:

FACCR@ohioauditor.gov

Is NOW

aosfederal@ohioauditor.gov

(AOS Federal)

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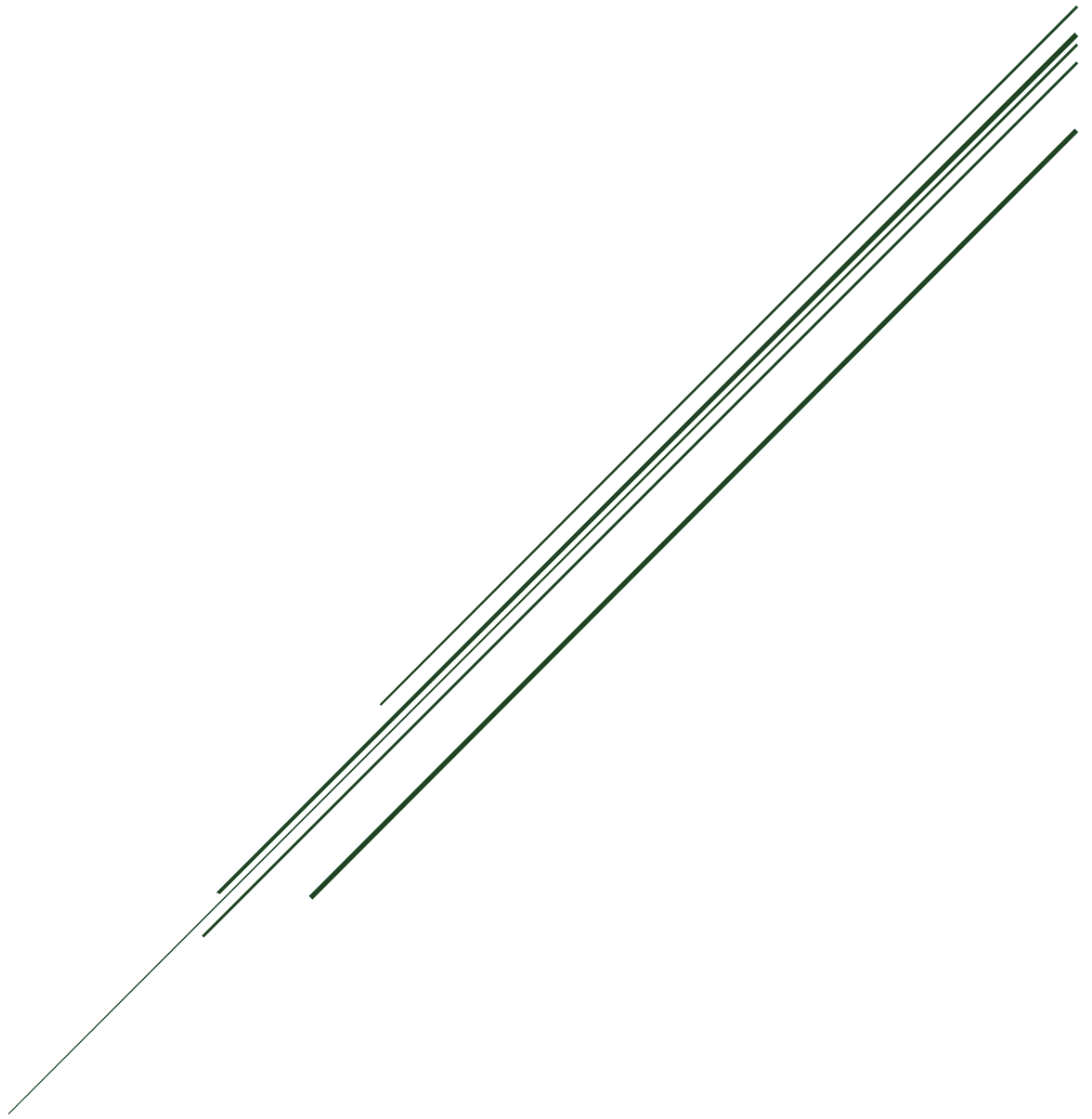
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2022 OHIO COMPLIANCE SUPPLEMENT UPDATE

Slides



OHIO AUDITOR OF STATE
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2022 IPA Conference
September 14, 2022

Ohio Compliance Supplement
Update

Presented By: Kelly Berger-Davis
Quality Assurance & Technical Specialist

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Agenda

What is the OCS?

2022 Updates

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What is the OCS?

- OCS = Ohio Compliance Supplement**
- Contains certain laws and regulations which are:
 - of the type auditors generally consider direct and material
 - or of considerable public interest
- Is **not** a comprehensive listing of applicable laws and regulations
- Is designed to help auditors and public offices identify and familiarize themselves with certain laws and regulations

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What is the effective date?

- 2022 OCS** Engagements of FYE 12/31/21 – 11/30/22
- 2021 OCS** Engagements of FYE 12/31/20 – 11/30/21

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Where is the OCS?

<http://www.ohioauditor.gov/references/compliancemanuals.html>

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How is the OCS Organized?

- Implementation Guide (IG)
- Chapter 1
 - Direct Laws - has the potential to materially misstate the financial statements.
- Chapter 2
 - Indirect Laws & Statutorily Mandated Tests
- Chapter 3
 - Stewardship
- Optional Procedures Manual (OPM)

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Updates - When/How Often? How to Identify Changes?

- Updated annually
- Normally posted Nov-Jan timeframe
- Changes marked with **strike-out**, **double underline** or **wavy-underline**

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How to Use?

Impl. Guide Exhibit 5 Legal Matrix

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4 **Suggested Audit Procedures - Compliance (Substantive) Tests:**

- Inquire (or determine from reading the minutes) if amended or supplemental appropriation measures have been passed.
- Inspect the government's records to determine if selected appropriation amendments were accurately and timely posted into an accounting system that integrates budget and actual receipts and disbursements. If the client uses a manual system (i.e. spreadsheets) determine if the manual system used by the client adequately tracks and compares budgetary data. Base the extent of this testing on the control environment, especially the CTO's competence and dedication to complying with Ohio Revised Code requirements, past errors noted, etc.
- Match appropriations amendments, supplements and unallotted appropriation "transfers" recorded in the accounting system with resolutions or ordinances.

Note: We suggest you test the general and other major / large funds and perhaps rotate a few smaller funds each audit.

- However, normally scanning the fund-accounting records and listing noncompliance as of year-end is not time consuming. This should be a reliable test if evidence suggests the auditee accurately records all budgetary amendments into its accounting system, and if the system reports negative variances.

Also consider including funds for which we reported noncompliance in the prior audits. There is rarely a need to "recreate" the budget in the working papers. That is, we do not require a spreadsheet listing all funds' estimated resources, appropriations (and amendments thereto), receipts, disbursements, and encumbrances.

5 **Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinion and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

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2022 OCS Updates

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All

Throughout

- As was in p/y, red text throughout OCS indicates guidance is related to COVID-19
- Removed references to AOS Clerk of the Bureau
- Updated references to 2021 revised Yellow Book
- Updated references to 2020 GAAFR
- Updated references to AOS 'briefcase' and links to AOS 'Intranet'

June 2022 Update

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Implementation Guide

Home Rule Powers & Reporting

- Added various clarifications

Audit Findings

- Added SAS 134 example language for f/s opinion modification
- Various edits to guidance on SIU FFR's
- Various edits to Strict Liability section

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Implementation Guide

Referring Audit Reports and Referrals to the Ethics Commission, Other State Agencies and the IRS

- Edits to Ohio Ethics Commission (OEC) referrals
- New section added for OEC referrals for IPA audits

Appendix A-1: Transfers and Advances

- Included guidance on proper accounting treatment for COVID-19 federal funds
- Added guidance from AOS Bulletin 2021-004 on Separate Accountability for Federal Programs Authorized by the American Rescue Plan of 2021

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Implementation Guide

Appendix A-2: Direct Charge

- Modified considerations for COVID-19

Appendix D

- Moved info to other sections of OCS
- This appendix now indicates 'not used'

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Implementation Guide

Exhibit 1: Prescribed format for citation of legal authority

- Sync'd up with language in other parts of IG

Exhibit 2: Public Officers' Bond

- Added info from ORC 3.061 regarding a person covered under an "employee dishonesty and faithful performance of duty policy", due to HB 444, eff. 4/12/21

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Implementation Guide

★ **Exhibit 4: Changes in Compensation**

- Re-written with updated guidance – changes are not marked

Exhibits 5 & 6: Legal Matrix

- Clarified applicable OCS sections and footnotes

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Implementation Guide

June 2022 Updates

- Responsibility for Paying Findings for Recovery (Strict Liability Laws) – Updated example Finding for Recovery
- Exhibit 4 (Changes in Compensation) – Added link to Ohio Township Assn. website for current Twp. compensation charts.
- Exhibits 5 & 6 (Legal Matrix) - Edited the OCS 2-23 applicability tab title to clarify that it is to determine OCS 2-23 **'Step7'** Applicability

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Ch. 1

1-1: Annual appropriation measures – classification

- The Governor's emergency public health orders were rescinded on June 18th, 2021 via Executive Order 2021-081D and are no longer in effect.
- July 2, 2021 through February 16, 2022 - public body had to conduct meetings and hearings in person.
- February 17, 2022 through June 30, 2022 - H.B. 51 allows members of public bodies to attend meetings virtually.
- Barring further additional legislation authorizing virtual meetings for public bodies, on July 1, 2022, public bodies will once again be required to hold meetings and hearings in person.

*School Districts - Except for those items covered by carryover encumbrances and federal and state grants/loans that are "deemed appropriated", money must be appropriated to be expended pursuant to ORC 5705.41. As a practical matter, a school district will have to pass some type of appropriation between July 1 and October 1 if it intends to expend money; however, failing to file a temporary appropriation measure by July 1 does not violate ORC 5705.38(B.)

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Ch. 1 & Ch. 2

1-2: Restriction upon appropriation and expenditure of money &

2-2: Restrictions on appropriating and expending money

- The "deemed appropriated" criteria applies to the COVID 19 funding but not to the funds for which the revenue is reallocated as described in AOS Bulletin 2021-004. The funds receiving the reallocation will need to estimate receipts and appropriate in the traditional manner.

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Ch. 1

1-4: Establishing funds and permission to establish special funds

- While Local governments do not need to seek AOS approval for establishing new funds for COVID-19 federal programs, legislation to create the fund should be approved by the entity's governing board.
- Additionally, the governing board of direct recipients and Non-Entitlement Units should pass a resolution or formal action to apply for and accept COVID-19 funds.
- Legal provisions governing the establishment of funds may sometimes conflict with GAAP
- GAAP-based reporting requires disclosure of material violations of legal and contractual provisions.

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Ch. 1

1-5: Distributing revenue derived from tax levies, proceeds from sale of bond issue, proceeds from sale of permanent improvement

- Current expenses, as defined in ORC 5705.01(F), are “lawful expenditures of a subdivision, except those for permanent improvements, and except payments for interest, sinking fund, and retirement of bonds, notes, and certificates of indebtedness of the subdivision.”
- A school district, community school or STEM school may have a deficit in the special revenue fund established to receive funds from the ESSER Fund under the CARES Act, Consolidated Appropriations Act and American Rescue Plan Act in fiscal year 2021 and 2022 when that deficit resulted from a temporary delay in the Department of Education’s ability to process claims reimbursements. [Sec. 209.60 of Am. Sub. H.B. No. 169 134th G.A.]

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June 2022 Update

Ch. 1

1-6: Transfer of funds

- Added reference to AOS Advisory Memo titled *‘Prior Fiscal Year Expenditures Reimbursed with Federal Funds in the Subsequent Fiscal Year’*

1-7: Advances

- Minor edits made to COVID 19 guidance

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Ch. 1

★ 1-8: Reserve balance accounts and funds

- Added guidance & testing steps for ORC 5705.222(C) – Reserve balance account for county board of developmental disabilities

★ 1-11: Permissible expenditures for school districts participating in classroom facilities assistance programs; Interest accounting and allocation and maintenance plan funding and expenditures

- The Ohio Facilities Construction Commission (OFCC) administers the Programs described in this section. This section has been updated to reflect the higher risk areas of potential material non-compliance identified by the Commission.
- Changes in this section are not marked.

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Ch. 1

Section B: Contracts and Expenditures

- Auditors should carefully consider whether contract expenditures are direct and material to their audit.
- Among other federal assistance, local governments are receiving historical levels of federal funding as part of the Coronavirus State and Local Fiscal Recovery Funds distributed under the American Rescue Plan.
- Local governments undertaking such projects must use caution and consider federal Procurement rules together with the state and local laws and regulations as they contemplate contracts.
- Where there is conflict between Federal, state and local law or regulation, the most restrictive requirements apply.

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Ch. 1

1-12: Community School Debt

- Added references to information and guidance contained in OCS 2-5 and Bulletin 2021-002

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Ch. 1

1-17: Annual financial reporting

- Added:
 - Requirements regarding The Ohio Exposition Commission (ORC 991.06)
 - Requirement and testing related to Councils of Governments registration with AOS (ORC 167.04(D))
 - Guidance previously contained in OCS Appendix D *(also added to 1-18)*

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Ch. 1

1-22: Vacation and sick leave

1-23: Collection of income tax at source on wages

- The American Rescue Plan Act (ARPA) amended & extended the tax credit for the FFCRA leave from 4/1/21 - 9/30/21 (also added to OCS 1-23)
- The ARPA credit will now apply against an employer's Medicare taxes rather than Social Security taxes.
- ARPA increased the maximum tax credits available and expanded the leave reasons eligible for the credit.

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Ch. 1

1-24: Definitions, rates of contributions etc.

- Added guidance about premium pay for those essential workers that regularly perform **in-person** work, interact with others at work, or physically handle items handled by others, charged to the Local Fiscal Recovery Fund.
- Among other limitations, employees are not eligible for premium pay during periods they were teleworking.
- Elected officials should avoid voting on premium payments for themselves as this may constitute a violation of Ohio Ethics Laws.

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Ch. 1

June 2022 Updates

★ 1-26: School district funding

- Section was not included in November 2021 release.
- Has been reorganized and updated to reflect the major changes related to school districts from the enactment of 134th GA HB 110 and SB 229.
- Changes in this section are not marked.
- For FY 2022, auditors will perform alternative testing procedures, as indicated in the controls & suggested audit procedures sections.
- House Bill 110, 134th GA requires state operating funding to be paid directly to school districts, community schools, and STEM schools for the students they are educating but it excludes direct funding for contract career tech and special education co-op students. **This direct funding concept differs from prior law** where community and STEM school students and students who open enroll were included in the student count of their resident school districts, and the funds attributable to those students were deducted from their resident districts and then paid to the schools in which they were enrolled. Similarly, it requires direct payment of state scholarships, rather than deducting the amounts of those scholarships from students' resident districts.

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- Added table to beginning detailing the different types of traditional schools:
 - Brick & Mortar – operating in a traditional in-person fashion
 - Brick & Mortar – using a Blended Learning Model (*available option since 2012*)
 - Brick & Mortar – with an Online Learning Model/School (*NEW 2022 option*)
 - Brick & Mortar – using a Remote Learning Plan (RLP) (*available option since 2021*)

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- Issue a noncompliance citation if:
 - The district operated remotely but did not have a Blended Learning Model (Ohio Rev. Code § 3302.41), Online Learning Model/School (Ohio Rev. Code § 3302.42) or Remote Learning Plan (134th GA, SB 229, Section 4) for FY 2022.
 - A Blended Learning Model (Ohio Admin. Code 3301-35-03), Online Learning Model/ School (Ohio Rev. Code § 3302.42) or Remote Learning Plan (134th GA, SB 229, Section 4) was adopted but did not include all of the required items;
 - The district operated an Online Learning Model / School **AND** a Remote Learning Plan for FY 2022
 - The district operated remotely under the Remote Learning Plan (134th GA, SB 229, Section 4(D)(2)) or Blended Learning Model (134th GA, SB 229, Section 3(D)(1)) and did not have procedures in place to ensure that students have access to the internet and to devices students may use to participate in online learning.
 - The district operated remotely under an Online Learning Model/School but did not have procedures in place to provide all students with a computer or access to the internet, at no cost, for instructional use
 - Lack of support or if it appears they are not following the policies/controls of model(s) chosen/ utilized.

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- Fy 2022 **Blended Learning** Changes:
 - Schools must submit to ODE a declaration to implement or discontinue use of a Blended Learning Model by 4/30/22 – SB 229.
 - Per HB 110 & SB 229: Blended learning is the delivery of instruction in a combination of time primarily in a supervised, physical location away from home and online delivery where the student has some element of control over time, place, path, or pace of learning and includes noncomputer-based learning opportunities.

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- **Online Learning Model/School:**
 - Beginning with FY 2022, Districts can opt to add an Online Learning Model/School under ORC 3302.42.
 - ORC 3301.079 states for Online Learning Models, students work primarily from their residence on assignments delivered via internet- or other computer-based instructional method.

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- **Online Learning Model/School:**
 - These are different from Remote Learning Plans, which are temporary in nature.
 - Districts must notify ODE by 11/29/2021 if operating or ceasing to operate for the 2021-2022 school year.
 - **Cannot** use RLP **and** new Online Learning Model

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- **Remote Learning Plan (RLP) changes:**
 - "Remote learning" means synchronous and asynchronous instruction and educational activities that take place when the students and the teachers are not physically present in a traditional classroom environment (134th GA, HB 229, Section 4(A)(5))
 - RLPs are in temporary law & were originally only for FY 2021. SB 229 continued RLPs (with modifications) for FY 2022.

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- **Remote Learning Plan (RLP) changes:**
 - Districts using a RLP for FY 2022 must have adopted a resolution, notified ODE of such by 12/15/21, and revised its FY 2021 plan for FY 2022 requirements.
 - **A school cannot use a RLP for FY 2022 if it did not previously submit one to ODE for FY 2021.**
 - Now on a per student basis – meaning the school must adopt to continue using the RLP, but it can only be used for students whose parents requested such.
 - **Cannot use RLP and new Online Learning Model**

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

• **Control procedure box:**

In determining how the government agency complies, consider the following:	What controls are in place to ensure the organization is compliant with the requirements of the law?	N/A or Not
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of Personnel • Financial Data Checklists • Evaluation and Management Monitoring and Information Systems • Management Identification of Changes in laws and regulations • Management Assessment of Changes in laws and regulations to employees 	<p style="color: red; font-size: x-small;">The control procedure box is used to document the controls that are in place to ensure the organization is compliant with the requirements of the law. The control procedure box should be completed for each requirement of the law. The control procedure box should be completed for each requirement of the law. The control procedure box should be completed for each requirement of the law. The control procedure box should be completed for each requirement of the law.</p>	

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June 2022 Updates

Ch. 1

★ 1-26: School district funding

- **Suggested Audit Procedures:**
 - Alternative Testing Steps as marked in the section.
 - Important to Note – Step 1:
 - If the school operated using a Blended Learning Model, Online Learning Model/School and/or Remote Learning plan, you will want to add the testing document for each of the learning models used to TeamMate for testing.

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June 2022 Updates

If the school utilized a Remote Learning Plan (RLP) during FY 2022, evaluate whether they complied with 134th GA, SB 229, ~~Sections 4~~ by assessing whether:

1. A RLP was submitted for FY 2022 as required by the 134th GA, SB 229, ~~Sections 4~~ (Note: A school cannot use a RLP for FY 2022 if it did not previously submit one to ODE for FY 2021).
2. A resolution was adopted to continue to provide instruction using their FY 2022 RLP (note: a significant change for FY 2022 is that RLPs can only be used for those students whose parents or guardians submit a written request to the principal specifically requesting this option).
3. The temporary FY 2022 RLP was updated & ODE was notified in accordance with the 134th GA, SB 229, Section 4
 - a. ODE was notified not later than December 15, 2021.
 - b. ODE's approval of continuing a RLP is not required.
 - c. A list of remote learning justifications reviewed by ODE is available on [iInfo](#).
4. The updated RLP for FY 2022 shall do all of the following (auditors are not expected to test the sufficiency of each item, just that each item was included):
 1. Meet all minimum school year requirements under sections 3314-07 or 3314-18 of the Revised Code.
 2. Ensure that students have access to the internet and to devices students may use to participate in online learning. If a school determines that a student does not have appropriate access to the internet or device, the school shall provide it at no cost to the student. Schools shall provide a filtering device or annual filtering software that protects against internet access to materials that are obscene or harmful to juveniles on each computer provided to students for instructional use.
 3. Track and document all student remote learning participation including online and offline.
 4. Report student attendance based on student participation.
 5. Monitor and measure student achievement and progress and provide additional services if necessary to improve student achievement.
 6. Periodically communicate with parents or guardians regarding student progress.
 7. Develop a statement describing the school's approach to addressing nonattendance and its compliance with existing procedures and requirements.
 8. Report to the Department of Education both of the following:
 - a) The total number of students engaged in remote learning by grade level;
 - b) The total number of students with disabilities engaged in remote learning.
5. Select one student on the Remote Learning Plan for FY 2022 and determine the following:
 - a. If the student's parents or guardians submitted a written request to the principal of the school building to which the student is assigned to specifically request the RLP option.
 - b. Select one week the student was on the RLP & perform a walk-through. Based on documentation in the controls box in 1.02 & the school's RLP, determine if documentation exists to support each remote

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June 2022 Updates

Ch. 1

1-27: Community School Funding

- Section was not included in November 2021 release.
- Has been updated to reflect the major changes related to community schools from the enactment of 133rd GA HB 331 & 134th GA HB 110 and SB 229.
- **With the exception of the red COVID language, changes in this section are marked.**
- For FY 2022, auditors will perform alternative testing procedures, as indicated in the controls & suggested audit procedures sections.
- Beginning with FY 2022, the new funding formula requires state operating funding be paid *directly* to community schools for the students they are educating (but it excludes direct funding for contract career tech and special education co-op students), rather than being first paid to the traditional resident district, and then deducted and paid to the community school they are being educated at. **Simply stated, ODE now funds students where they are educated, rather than where they live.** (House Bill 110, 134th GA)

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June 2022 Updates

Ch. 1

1-27: Community School Funding

- Similar to prior years:
 - Brick & Mortar – operating in a traditional in-person fashion (*available option since 1999*) - **1-27A**
 - E-schools - (*available option since 2002*) – **1-27B**
 - Brick & Mortar – using a Blended Learning Model (*available option since 2012*) – **1-27C**
 - Brick & Mortar – using a Remote Learning Plan (RLP) (*available option since 2021*) – **1-27A or C**

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June 2022 Updates

Ch. 1

1-27: Community School Funding

- Issue a noncompliance citation if:
 - The school operated remotely, but was not an e-school, and did not have a Blended Learning Model (Ohio Rev. Code § 3302.41) or Remote Learning Plan (SB 229, Section 4) for FY 2022;
 - A Remote Learning Plan (SB 229, Section 4) was adopted but did not include all of the required items;
 - The school operated remotely under the Remote Learning Plan (SB 229, Section 4(D)(2)) and did not have procedures in place to ensure that students have access to the internet and to devices students may use to participate in online learning;
 - Lack of support or if it appears they are not following the policies/controls of model(s) chosen/utilized. (SB 229, Section 4).

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June 2022 Updates

Ch. 1

1-27: Community School Funding

- ODE FTE Reviews – Modified Protocols
 - These typically concentrate on various areas of non-compliance noted in the schools prior year review.
 - If the schools letter states such was used, review the modified protocol listing on the [AOS Community School intranet page](#) for details of the modified review.
 - For items tested by ODE, as long as the number of students tested is greater than or equal to the number of students required by OCS 1-27, ODE's review may be relied on *for the specific items the modified protocol listing/FTE review document mentions were tested* at the particular school.

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June 2022 Updates

Ch. 1

1-27A: Community School Funding (Brick & Mortar)

- Remote Learning Plan (RLP) changes:
 - ★ Schools using a RLP for FY 2022 must have adopted a resolution, notified ODE of such by 12/15/21, and revised its FY 2021 plan for FY 2022 requirements.
 - A school cannot use a RLP for FY 2022 if it did not previously submit one to ODE for FY 2021.**
 - Now on a per student basis – meaning the school must adopt to continue using the RLP, but it can only be used for students whose parents requested such.
 - The Sponsor is now required to approve to continue to provide instruction using the schools' RLP.

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June 2022 Updates

Ch. 1

1-27A: Community School Funding (Brick & Mortar)

- Remote Learning Plan (RLP) changes (cont'd):
 - If a community school filed a RLP or blended learning declaration but did not implement and use the plan/declaration, the school would be tested as a normal, in person, brick and mortar community school in 1-27A.
 - SB 229 allowed for FY 2022 only, a community school that continues to provide instruction under the RLP, shall be considered as having met any requirements to receive state funds under Chapters 3314 or 3317.
- ★ As a result, documented learning opportunities do not impact funding for FY 2022, and such errors noted would only be considered for internal control purposes, and auditors would not cite noncompliance. (ODE interprets this application to apply only to the students utilizing the RLP)

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June 2022 Updates

Ch. 1

1-27B: Community School Funding (E-schools)

- Contact CFAE Community School Specialist if auditing an e-school that is not implementing a Dropout Prevention and Recovery (DOPR) program.
 - New student attendance requirements for such e-schools were created in HB 409, effective 4/12/21, as amended by HB 110, effective 9/30/21 (Ohio Rev. Code § 3314.261) & SB 229, effective 12/14/21 (Ohio Rev. Code § 3314.262).

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June 2022 Updates

Ch. 1

1-27C: Community School Funding (Blended)

- Fy 2022 **Blended Learning** Changes:
 - Schools *may* utilize RLP's *and* Blended Declarations
 - SB 229 allowed for FY 2022 only, a community school that provided instruction under a blended learning declaration/model, shall be considered as having met any requirements to receive state funds under Chapters 3314 or 3317.
- ★ As a result, documented learning opportunities do not impact funding for FY 2022, and such errors noted would only be considered for internal control purposes, and auditors would not cite noncompliance.

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June 2022 Updates

Ch. 1

1-27C: Community School Funding (Blended)

- Fy 2022 **Blended Learning** Changes:
 - Schools must submit to ODE a declaration to implement or discontinue use of a Blended Learning Model by 4/30/22 – SB 229.
 - Per HB 110 & SB 229: Blended learning is the delivery of instruction in a combination of time primarily in a supervised, physical location away from home and online delivery where the student has some element of control over time, place, path, or pace of learning and includes noncomputer-based learning opportunities.

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Ch. 1

★ Appendix A: Agricultural Society Compliance Supplement

- Made edits from HB 665, effective 4/12/21:
 - To ORC 1711.13 language: The total ~~net indebtedness~~ annual payments for debt obligation incurred by a county agricultural society pursuant to this division (B) shall not exceed an amount equal to twenty-five percent of its prior three-year average of annual revenues.
 - To ORC 1711.06 (formerly 901.06) guidance related to filing financial reports & publication of treasurer's account
 - Adding ORC 3769.086 related to an ag. Society being unable to conduct races, or unable to conduct their annual fair.

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Ch. 2

2-1: Appropriations limited by estimated revenue

- There are no budgetary exemptions for CARES Act, Consolidated Appropriations Act, or American Rescue Plan (ARP) funding
- Local governments receiving the ARP Coronavirus State and Local Fiscal Recovery Funds may utilize project-length budgeting, in some cases, for the first time.

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June 2022 Updates

Ch. 2

2-3: Internet or computer-based community school cannot contract with a nonpublic school for instructional facility space

- COVID-19 considerations were originally removed from the initial 2022 release as no legislation was in place impacting this section however SB 229 was subsequently passed and therefore this section was updated

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Ch. 2

2-5: Accounting for community school management company expenses

- Added step for auditors to tie the community school's management company footnote to the support provided by which ever option was selected
- Removed 'haphazardly or randomly' from certain steps where transactions are selected in AUP's
- Added reference to information contained in OCS 1-12

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Ch. 2

2-6: Eligible investments for interim monies; inactive deposits and maturities

- Removed references to Star Plus, as it no longer exists
- Noted that LIBOR will be phased out after 2021, and replaced with IBOR **June 2022 Update**

2-8: Other allowable investments for subdivisions other than counties

- Added reference to GASB 40 information in OCS IG Appendix E-2

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June 2022 Updates

Ch. 2

2-9: Security for repaying public deposits

- Pooled Collateral Requirements – SB 115 edit:
 - Effective March 2, 2022, if, on any day, the total market value of the securities pledged by the public depository is less than that specified in ORC 135, the public depository shall have two business days to pledge additional eligible securities having a market value sufficient, when combined with the market value of eligible securities already pledged, to satisfy the requirement of ORC 135, as applicable, to secure the repayment of all uninsured deposits at the public depository.
 - A shortfall of collateral pledged by a public depository at an entity's fiscal year end could impact the entity's custodial credit risk disclosure for deposits under GASB 40 as the amount of the deficiency would be considered uninsured and uncollateralized; however, if the shortfall is appropriately remedied within two business days under Ohio Rev. Code § 135.182(B)(3) this would not represent noncompliance.

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Ch. 2

2-10: Eligible investments for inactive *county* money

- Removed references to Star Plus, as it no longer exists
- Updated list of nations the US recognizes diplomatically
- Added reference to GASB 40 information in OCS IG Appendix E-2

2-12: Community School contractually imposed deposit and investment requirements

- Clarified: Auditors should identify and list any applicable requirements below (by reviewing the charter, terms and conditions of grant agreements, loan documents, etc):

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Ch. 2

2-13: Sponsor monitoring of community schools

- Added reference to analysis CFAE performs over ODE sponsor ratings
- Added: ODE does not require the sponsor's annual report be submitted for a close-out audit.
- Updated the date of the ODE School Suspension and/or Closure Procedures memo from May 2018 to July 2021

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June 2022 Updates

Ch. 2

2-13: Sponsor monitoring of community schools

- Per HB 110 & SB 229: Blended learning is the delivery of instruction in a combination of time primarily in a supervised, physical location away from home and online delivery where the student has some element of control over time, place, path, or pace of learning and includes noncomputer-based learning opportunities.
- SB 229 continued Remote Learning Plans (RLP) (with modifications) for FY 2022.
 - Now on a per student basis – meaning the school must adopt to continue using the RLP, but it can only be used for students whose parents requested such;
 - The Sponsor is now required to approve to continue to provide instruction using the schools' RLP.

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Ch. 2

★ **2-16: Force accounts – municipal corporations**

2-17: Force accounts – counties

2-18: Force accounts – townships

- Modified requirements and procedures for updates to statutory limits and thresholds
 - HB 74, eff. 6/30/21

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Ch. 2

★ **2-20: Landfill financial responsibility and certifications; Solid waste transfer facility responsibility and certifications**

- Modified to separately include solid waste transfer facilities
 - OAC 3745-503-05 & 20

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Ch. 2

★ **2-23: Ohio Sunshine Laws**

- We should not test for University Foundations or Courts or Clerk of Courts.
- Meetings of a public body may continue to be presented by teleconference, videoconference, or other similar electronic technology after July 1, 2021. However, the Open Meeting Act, including the period from July 1, 2021 through February 16, 2022 and after June 30, 2022, requires members of a public body be present in-person to be counted in the quorum and to vote. (HB 51) **June 2022 Updates**
- Added guidance about obtaining proof of attendance at public records training
- Explained that for community schools, beginning in testing for fiscal year end 2023, the annual training on public records and open meetings laws must have been training that is certified by the Ohio Attorney General.
- AOS staff should consult with the assistant legal counsel assigned to their region regarding any non-compliance or questions related to these requirements or violations of ORC 149.351 (destruction of records) related to these records.
- Added reference to OCS Legal Matrix, OCS 2-23 Applicability tab - to determine the section of the ORC which applies to the public office.
 - "No Records Authority" indicates 2-23 is not applicable.

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Ch. 2

2-25: Anti-Bullying Provisions

- Clarified section to remove STEM schools

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Ch. 3

★ **Throughout Ch. 3**

- Modified requirements for testing frequency of sections
 - Pg. 1 explains, AND
 - Note added to the top of each section (see ex's on next slide)

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Ch. 3

★ **Throughout Ch. 3 (cont'd)**

3-6 Compliance Requirement: Ohio Rev. Code §§ 3301.0710, 3301.0712, 3314.017, 3314.034, 3314.38; Ohio Admin. Code 3301-102-10 - Dropout Prevention and Recovery School Eligibility Requirements
Note: As stated on pg. 1 of Chapter 3, this section should be performed *ANNUALLY* if applicable to your entity.

3-16 Compliance Requirements: Ohio Rev. Code §§ 305.171 and 505.603³¹ - "Cafeteria Plans"³²
Note: As stated on pg. 1 of Chapter 3, this section may be retailed if noted requirements met.

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Ch. 3

3-1: Deposits of public money

- When testing, consider any related CARES ACT & General COVID-19 and American Rescue Plan (ARP) AOS FAQs

★ **3-2: Contracts and competitive bidding (NEW)** ★

- Added section moving contract testing from OPM into chapter 3 for testing when material
- Added COVID-19 considerations June 2022 Updates

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Ch. 3

3-3: Appointments, compensation, contracts etc.

- Added reference to Ohio AG opinion 21-021
- Added reference to OCS 2-23 regarding exceptions to virtual meetings
- Expanded the dates members of a public body may hold and attend meetings and may conduct and attend hearings by means of teleconference, video conference, or any other similar electronic technology to include February 17, 2022 – June 30, 2022. (HB 51)

June 2022 Updates **3-4: Political activities prohibited**

- Added requirement related to administering and conducting elections (ORC 3501.054), due to HB 110, eff. 9/30/21

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Ch. 3

3-5: Bonding requirements

- Added info from ORC 3.061 regarding a person covered under an “employee dishonesty and faithful performance of duty policy”, due to HB 444, eff. 4/12/21

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Ch. 3

3-12: Collection, custody and disbursement of fees, fines, costs and deposits

- Removed 1901.14 from list under Municipal Courts

3-15: Reimbursement of insurance premiums

- Added info regarding the cap on payments and reimbursements being adjusted each year for inflation.

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Ch. 3

★ 3-19: Dropout Prevention and Recovery School Eligibility Requirements

- Moved requirements from 3-6 to 3-19 June 2022 Updates
- Added to and clarified requirements.
- Removed considerations for COVID-19 no longer applicable

★ 3-20: School District Transportation T-1 and T-2 Forms (NEW) ★

- Added this new section to be tested each year.
- Testing student counts on the T1 Form & tying back certain amounts on the T2 form to the underlying accounting records

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June 2022 Updates

OPM

OPM

- New OCS 3-2 – lists OPM sections which must be tested, if applicable, to the entity under audit – IF contract expenditures are material
- Not requiring any additional OPM testing for this year

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OPM

Contract Exp. Sections:
O-9 - O-11
O-13 – O-20


- Added considerations for COVID-19/procurement
- Removed former procurement note

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Key Take-Aways

- ★ If you previously reviewed the 11/2021 version of the 2022 OCS - section 1-26 & 1-27 (school funding) & any significant legislative changes which subsequently passed that impact the 2022 OCS (HB's 51, 169 & SB's 115 & 229) were updated & posted on 6/30/22.
- ★ Added 3-20 for testing School District Transportation Forms (T1 & T2).
- ★ Ch. 3 modified requirements for testing frequency of sections.
- ★ Added 3-2 to move contract testing from OPM into chapter 3 for testing when material.

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CHAPTER 4 – SCHOOL COMPLIANCE TESTING

CHAPTER 4 APPLICABILITY	TRADITIONAL SCHOOLS COMMUNITY SCHOOLS STEM/STEAM SCHOOLS EDUCATIONAL SERVICE CENTERS (ESCs)
Due to the release date of the Ohio Compliance Supplement, and schools being on a June 30 fiscal year end, beginning with the FY 2023 Supplement, agencies that are only applicable to Traditional Schools, Community Schools, ESCs, or STEM/STEAM Schools, were placed out to create Chapter 4. This chapter will be released subsequent to the remainder of the Supplement to allow for inclusion of legislators, etc. that impacts the corresponding school fiscal year. Note: Sections of the Ohio Compliance Supplement which apply to schools and other entity types were retained in Chapters 1-3 of the OCS.	
CHAPTER 4 SECTIONS	FORMS INCLUDED IN OCS CHAPTER 4 MANUALS
CHAPTER 4A – DIRECT LAWS	CHAPTER 1
CHAPTER 4B – INDIRECT LAWS & STATUTORILY MANDATED TESTS	CHAPTER 2
CHAPTER 4C – STEWARDSHIP	CHAPTER 3
CHAPTER 4D – SCHOOL OPTIONAL PROCEDURES	OPTIONAL PROCEDURES MANUAL (OPM)

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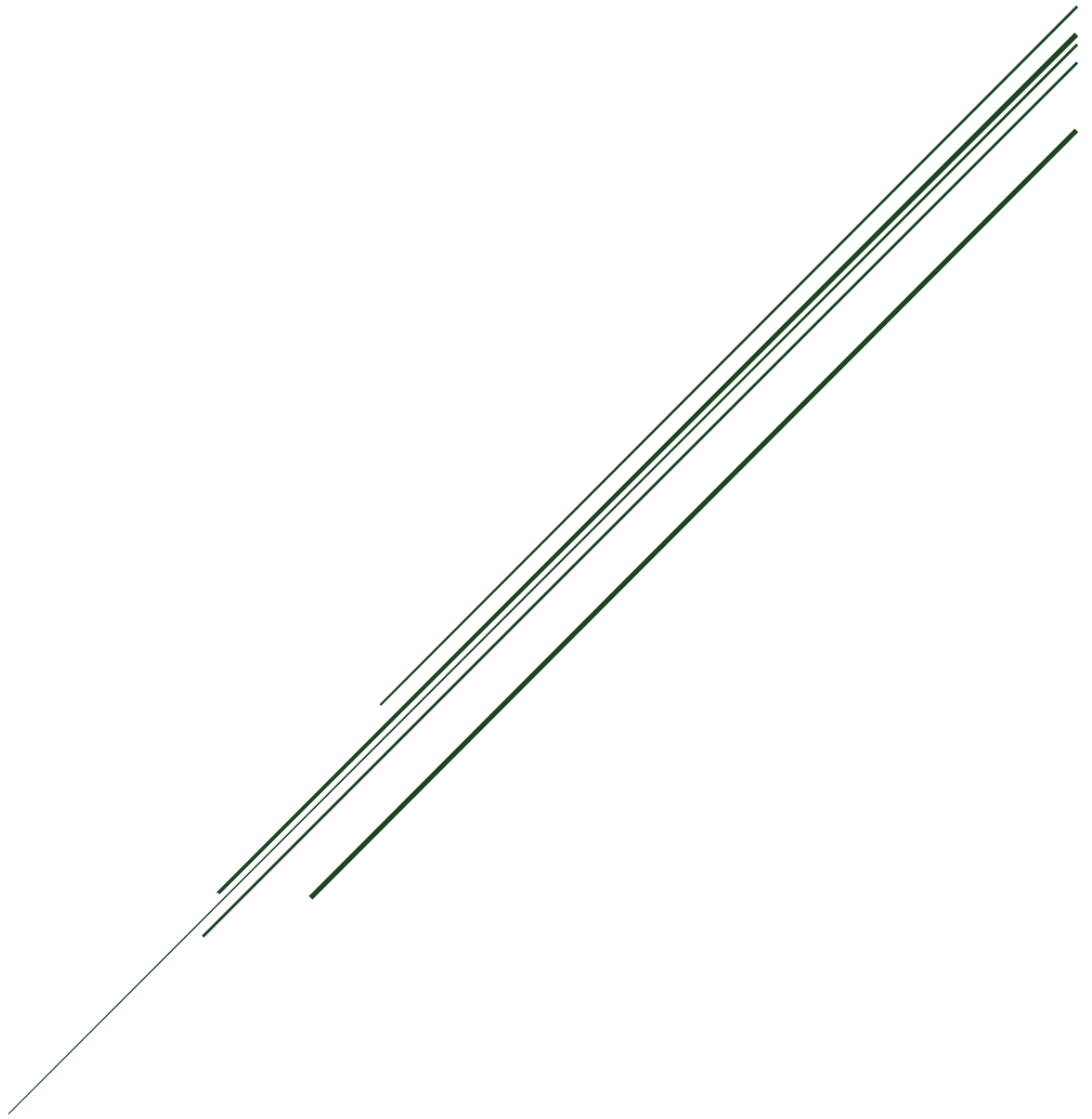
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OHIO AUDITOR OF STATE
KEITH FABER



GASB UPDATE

Slides



OHIO AUDITOR OF STATE
KEITH FABER

GASB Update

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1

Issued GASBs yet to be implemented

- GASB 87 – Leases (FY 2022)
- GASB 91 – Conduit Debt (FY 2023)
- GASB 92 – Omnibus 2020 (multiple effective dates, but all by FY 2022)
- GASB 93 – Replacement of Interbank Offered Rates (FY 2022)
- GASB 94 – Public-Private Partnerships (FY 2023)
- GASB 96 – SBITA (FY 2023)
- GASB 97 – Certain Component Unit Criteria and Section 457 Plans (FY 2022)
- GASB 98 – The Annual Comprehensive Financial Report (FY 2022)

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Projects on GASB's Agenda

- Big Three
 - Disclosure Framework (Concepts Statement Issued July 2022)
 - Financial Reporting Model (FRM) (statement expected April 2023)
 - Revenue and Expense Recognition (RER) (exposure draft expected 2025 with final statement expected in 2027)
- Expected in 2023
 - Implementation Guidance
 - Risk and Uncertainties Disclosure


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GASB 87 Guidance


Effective for fiscal years beginning after June 15, 2021, and all financial reporting periods thereafter

- Statement No. 87, *Leases*
 - 94 paragraphs
- Implementation Guide No. 2019-3, *Leases*
 - 77 Q&As
- Implementation Guide No. 2020-1, *Update - 2020*
 - 12 Q&As



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GASB 87 Guidance



Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter


- Implementation Guide No. 2021-1, *Update - 2021*
 - 19 Q&As
- GASB Statement No. 99, *Omnibus 2022*
 - 7 paragraphs

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GASB 87

Underlying Asset


Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.



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GASB 87


Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.



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Lease Definition




A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. (GASB 87 ¶4)

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8

Lease Definition



A financial asset is either cash, something that will convert to cash in due course (receivables, investments, inventories held for sale), or something that avoids the need for a near-term cash outlay (prepaid items and supplies inventories). 2020 GAAFR pg 7-2


GASB 87 footnote 2 defines financial asset

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Lease Definition

Examples of nonfinancial assets include land, buildings, vehicles, and equipment (GASB 87 ¶7)



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Lease Definition


To determine whether a contract conveys control of the right to use the underlying asset, a government should assess whether it has **both** of the following:

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Lease Definition


- The right to obtain the present service capacity from use of the underlying asset as specified in the contract
- The right to determine the nature and manner of use of the underlying asset as specified in the contract (GASB 87 ¶5)



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Lease Definition


2028

Some governmental contracts that transfer the right to use an asset require only a nominal amount, such as one dollar per year, to be exchanged for the right to use the underlying asset. GASB believes that the substance of that type of arrangement represents a nonexchange transaction (such as a donation or grant), which is addressed within the scope of GASB Statement No. 33. (IG 4.1)

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Lease Definition



Some respondents to the Preliminary Views questioned the exclusion of nonexchange transactions from the definition of a lease, citing concerns about how to account for those transactions. The Board acknowledges that the existing guidance for nonexchange transactions in Statement 33 does not specifically address the right to use nonfinancial assets in nonexchange transactions, such as the free use of office space. The Board noted that those nonexchange transactions, although not in the scope of this Statement, are expected to be addressed as part of the GASB's project on revenue and expense recognition. GASB 87 ¶B10

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Lease Definition

Lease Agreement

Leases include contracts that, although not explicitly identified as leases, meet the definition of a lease. This definition excludes contracts for services except those contracts that contain *both* a lease component and a service component. GASB 87 ¶6

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Does Not Apply





- Leases of intangible assets
- Leases of biological assets, including timber, living plants, and living animals.
- Leases of inventory

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Does Not Apply


- Contracts that meet the definition of a service concession arrangement in paragraph 4 of Statement No. 60,
- Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- Supply contracts, such as power purchase agreements (GASB 87 ¶18)



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Lease Term


The Lease term is the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:



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Lease Term

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the will exercise that option.

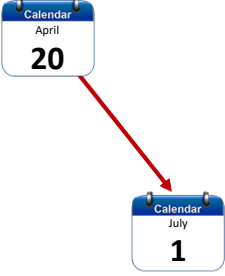


- Periods covered by a lessee's option to terminate the lease if it is reasonable certain, based on all relevant factors, that the lessee will not exercise that option.

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Lease Term




- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option

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Lease Term

Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term.




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Lease Term

For example, a rolling month-to-month lease, or a lease that continues into a holdover period until a new lease contract is signed, would not be enforceable if both the lessee and the lessor have an option to terminate and, therefore, either could cancel the lease at any time.



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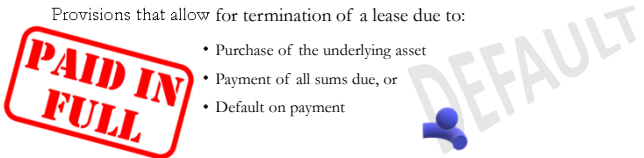
Lease Term

Provisions that allow for termination of a lease due to:

- Purchase of the underlying asset
- Payment of all sums due, or
- Default on payment


Are not considered termination options (GASB 87 ¶12)

Note: the above only applies to contracts that transfer ownership



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Lease Term



A fiscal funding or cancellation clause allows governmental lessees to cancel a lease, typically on an annual basis, if the government does not appropriate funds for the lease payments. This type of clause should affect the lease term only if it is reasonably certain that the clause will be exercised. (GASB ¶13)

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Lease Term

An option to terminate is an unconditional right that exists within the lease contract. A provision that gives a lessee or lessor the right to terminate the lease only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the lease contract, should not be considered an option to terminate the lease for purposes of determining the lease term. For example, provisions that allow for the termination of a lease due to a violation of lease terms and conditions, such as a default on payments, are not considered options to terminate the lease. (GASB 99 ¶11a)

Lease Term

- Noncancellable period(s)
- + Periods covered by either party's option to extend if, based on all relevant factors, it is reasonably certain *to be* exercised (extended)
 - + Periods covered by one party's sole, unconditional* option to terminate if, based on all relevant factors, it is reasonably certain *not to be* exercised (not terminated)
 - Periods after a purchase option is reasonably certain to be exercised*
- = Lease term

Note: If both parties have the option to terminate, only the required notice period, if any, is included in the lease term

*GASB Statement No. 99, *Omnibus 2022* (above table generated by GFOA)

SHORT TERM Short-Term Lease


A short-term lease has a maximum possible term of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. (GASB 87 ¶16)

SHORT TERM Short-Term Lease

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Transfers Ownership

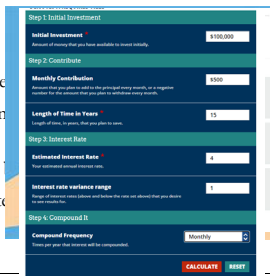


A contract that (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options, but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised, should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor. (GASB 87 ¶ 19)

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Interest Rate Definitions

- Stated rate – id
- Implicit rate – r calculated
- Imputed rate –
- Incremental rate



it can be SB 62 milar borrowings.


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FUTURE **Interest Rate** **DISCOUNT %**


- ...Some respondents to the Preliminary Views questioned that presumption, citing examples of leases in which lease payments are set using a method that does not involve an interest rate (for example, comparison of market rents for similar pieces of real estate). Nevertheless, the Board believes that a discount rate can be imputed on any future payment stream, even if it was not explicitly factored into the determination of the payment amounts.
- GASB 87 ¶ B69

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Lease Accounting - Lessee



- At the commencement of the lease term, lessee recognizes a lease liability and an intangible right-to-use lease asset
- The lease liability should be measured at the present value of payments expected to be made during the lease term.




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Lease Accounting - Lessee

- Future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease
- The lease asset should initially be measured as the amount of the initial measurement of the lease liability adjusted as indicated in GASB 87 ¶30.

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Lease Accounting - Lessee




- In subsequent periods the lessee should calculate the amortization of the discount on the lease liability. (interest method)
- A lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.
- GASB 87 ¶ 21 - 39

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Lease Accounting - Lessee

Consistent with the foundational principle that a lease is a financing, this Statement requires that a lessee recognize interest expense related to the amortization of the discount on the lease liability. A lessee also should recognize amortization expense related to the lease asset, representing the decrease in the useful life of the right to use the underlying asset over the lease term. The interest expense and amortization expense are reported in the resource flows statements with other interest and depreciation or amortization expense amounts.



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Lease Accounting - Lessee

INTEREST **AMORTIZATION**

The Board considered whether the interest and *amortization* expenses related to a lease could be combined and reported as a single rent expense amount, so that the expense could be classified as an operating expense, consistent with the manner in which expenses for operating leases were classified in Statement 62. However, the Board believes that presentation would be inconsistent with the foundational principle that a lease is a financing.

RENT OPERATING EXPENSE


- GASB 87 ¶ B54

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Lease Accounting - Lessee

The Board concluded that amortization of the lease asset should be calculated in a systematic and rational manner to be consistent with depreciation and amortization of other capital assets. Amortization in a systematic and rational manner does not necessarily mean the same amount would be amortized in each period. For example, a calculation that results in a constant total lease cost (the total of the separately determined interest and amortization) could be considered systematic and rational in some cases.



- GASB 87 ¶ B56

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Lease Accounting - Lessee

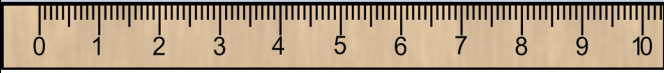
Governmental Funds

- An expenditure and OFS should be recognized in period the lease is initially recognized. Subsequent payment should be accounted for consistent with principles for debt service payments on long-term debt
- GASB 87 ¶ 35 and 36

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Lease Accounting - Lessor

VALUE




- At the commencement of the lease term, lessor recognizes a lease receivable and a deferred inflow of resources
- The lease receivable should be measured at the present value of payments expected to be received during the lease term.

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Lease Accounting - Lessor


- Future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease
- The deferred inflow should initially be measured as the amount of the initial measurement of the lease receivable adjusted as indicated in GASB 87 ¶53.



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Lease Accounting - Lessor

- In subsequent periods the lessor should calculate the amortization of the discount on the lease receivable. (interest method)
- The deferred inflow should be amortized in a systematic and rational manner over the term of the lease.
- GASB 87 ¶ 44 - 60



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Lease Accounting - Lessor

Underlying Asset


Underlying

A lessor should not derecognize the asset underlying the lease. A lessor should continue to apply other applicable guidance to the underlying asset, including depreciation and impairment. However, if the lease contract requires the lessee to return the asset in its original or enhanced condition, a lessor should not depreciate the asset during the lease term. GASB 87 ¶ 55

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Lease Accounting - Lessor

- ...Some respondents to the Preliminary Views questioned that presumption, citing examples of leases in which lease payments are set using a method that does not involve an interest rate (for example, comparison of market rents for similar pieces of real estate). Nevertheless, the Board believes that a discount rate can be imputed on any future payment stream, even if it was not explicitly factored into the determination of the payment amounts.
- GASB 87 ¶ B69




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Lease Accounting - Lessor

Governmental Funds

- Recognize a lease receivable and deferred inflow
- Measure deferred inflow at the initial value of the lease receivable (as adjusted)
- Recognize the deferred inflow as inflows of resources, if available, in a systematic and rational manner over the term of the lease. GASB 87 ¶ 56



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Lease Accounting - Other

- GASB 87 ¶ 69 – 90
- Contract Combinations
- Lease Modifications and Terminations
- Subleases
- Sale-Leaseback Transactions
- Lease-Leaseback Transactions
- Intra-entity Leases
- Leases between Related Parties

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Lease Accounting - Transition

Leases should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. (IG 4.76 and 4.77)

CIRCUMSTANCES

FACTS

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GASB 96 - SBITA



For purposes of applying this Statement, a SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 96 ¶6

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GASB 96 - SBITA


This Statement does not apply to:

Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, Leases, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system)

Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs

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GASB 96 - SBITA

Public Private

- Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended.
- GASB 96 ¶4

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GASB 96 - SBITA

One example of a typical SBITA is a cloud computing arrangement. The three most common deployment models for cloud computing are Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS). All three models involve a SBITA vendor providing the customer with the right to use the SBITA vendor's IT resources, including its software application and cloud infrastructure (including network, servers, operating systems, storage, and other tools). SaaS provides a customer with the ability to use a SBITA vendor's applications (software) through a cloud infrastructure.

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GASB 96 - SBITA

96

PaaS allows a customer to use a SBITA vendor's tools or coding language (software) to create applications that will run on the SBITA vendor's cloud infrastructure. IaaS allows a customer to remotely access the SBITA vendor's network, server, and other fundamental computing tools to process, store, and operate the customer's data. Although those cloud computing deployment models are referred to by many as "as a Service," the economic substance of those arrangements is, in fact, the right to use vendors' IT assets. The reference to "services" in those models highlights the fundamental difference between the subscription models and the traditional purchasing and perpetual licensing models.

GASB 96 ¶B14

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87 GASB 87 Leases

- Our goal is to walk through a GASB 87 example and look at how the GASB 87 contracts were identified and how we opted to track the necessary information.
- GASB 87 can involve a lot of research, so there is benefit in starting early.
- Note: This presentation is an overview of a very straightforward GASB 87 implementation. It is intended to be a starting point as it does not hit on all the complexities that are addressed in GASB 87. You will want to review GASB 87 to ensure you have addressed all your specific GASB 87 issues.

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Where to Start?

- **GASB 87**
 - Lease Definition (§ 4)
 - Lease Term Definition (§ 12-15)
- **GASB 87 Implementation Guide**
- **Additional Implementation Guides**
- **Look for contracts**




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Lease Definition

Review agreements where someone else uses your assets or you use their assets


- Examples:
 - Buildings—rentals
 - Vehicles
 - Land (parks, farmland, ball fields)
 - Easements (check IG)
 - Equipment
 - Cell Tower (check IG)
 - Look at the Scope and Applicability of Statement 87 section of the implementation guide for other examples



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Where Else to Look?

- Prior year's financial statements
 - Capital Leases
 - Operating Leases
- Receipt ledger—where are lease/rental amounts received?



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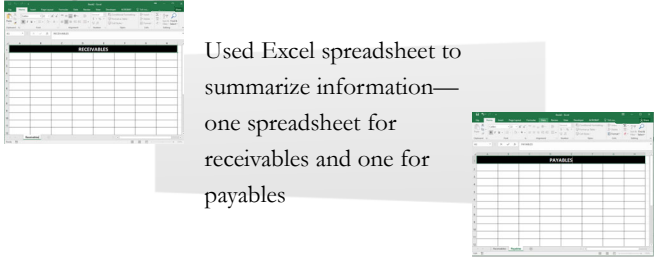
REVIEW of Contracts

- ✓ Identify asset (GASB 87 ¶7)
- ✓ Convey control (GASB 87 ¶5)
- ✓ Identify term—noncancelable period (GASB 87 ¶12)
- ✓ Exchange or exchange-like transaction (GASB 33 footnote 1)

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How to Track Information?


Used Excel spreadsheet to summarize information—
one spreadsheet for receivables and one for payables



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Other Considerations?

- How are new leases and lease modifications going to be identified and captured each year?
- What audit evidence are you going to need?
- What about other GASBs?
 - Subscription-Based Information Technology Arrangements
 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements




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Lessee/Liability Side


LIABILITY

In our case, most of the GASB 87 leases on the liability side had previously been identified as operating leases.



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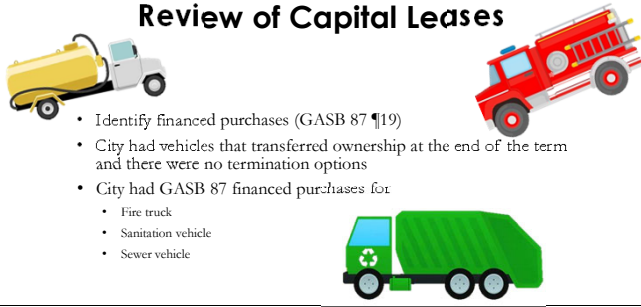
Use of Threshold



- When lessee/lease liability, we discussed with fiscal officer when we were comfortable leaving off both the asset side and the liability side.
- We found a postage machine lease that had been deemed immaterial in the past and we were comfortable with that lease remaining as immaterial.
- (IG 4.23)

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Review of Capital Leases



- Identify financed purchases (GASB 87 ¶19)
- City had vehicles that transferred ownership at the end of the term and there were no termination options
- City had GASB 87 financed purchases for
 - Fire truck
 - Sanitation vehicle
 - Sewer vehicle

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Review of Operating Leases




- Vacuum truck lease, make annual payments over six years, noncancelable term, truck was not the city's asset at the end of the lease term.
- This lease did meet the GASB 87 definition.

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Review of Other Contracts

- Vehicle for undercover police work, monthly payment, new vehicle every 60 to 90 days, no term identified in contract. Rolling month-to-month lease and both parties have the right to cancel.
- Lease of park land from the State for \$1per year. (IG 4.1)
- These did not meet the GASB 87 definition.




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Lessor/Receivable Side

RECEIVABLE

The receivable side seemed to take more work.



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Lessor/Receivable Side

RECEIVABLE

Various leases of office space, making monthly payments, noncancelable term.


- Most terms were three to five years and qualified as a GASB 87 lease
- One lease had a maximum term of six months—was considered short-term (GASB 87 45)
- One lease had a fixed monthly payment plus a variable payment of 4 annual payments. The variable payment was not included in the receivable (GASB 87 45)

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Lessor/Receivable Side

RECEIVABLE


- Lease of farmland at airport, annual payment, two year term, noncancelable. (IG 4.11)
- Lease of softball fields to outside group who runs various softball programs including the youth softball program, annual payment, three year term, noncancelable.



GASB 87 Lease

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Lessor/Receivable Side




- Oil/Gas Wells—right to explore (IG 4.10)
- Permanent easement—lasts indefinitely without cancellation option (IG 4.5)
- These are **not** GASB 87 leases

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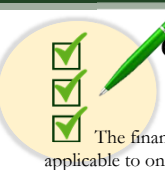
GASB 97 – Certain Component Unit Criteria and Section 457 Plans

In certain instances, a legally separate organization does not have a governing board. For purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), if the primary government performs the duties that a governing board typically would perform, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board.



GASB 97 ¶4

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GASB 97 – Certain Component Unit Criteria and Section 457 Plans

The financial burden criterion in paragraph 7 of Statement 84 is applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

GASB 97 ¶5

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GASB 97 – Certain Component Unit Criteria and Section 457 Plans


GASB 98 supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

A Section 457 plan should be classified as either a pension plan or an other employee benefit plan, as follows:

- a. A Section 457 plan that meets the definition of a pension plan in paragraph 51 of Statement 67 or paragraph 128 of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, is a pension plan for accounting and financial reporting purposes.
- b. A Section 457 plan that does not meet the definition of a pension plan is an other employee benefit plan for accounting and financial reporting purposes.

Statement 84, as amended, should be applied to determine whether an arrangement organized under IRC Section 457 should be reported as a fiduciary activity in a government's fiduciary fund financial statements.


GASB 97 ¶6&7



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GASB 97 – Certain Component Unit Criteria and Section 457 Plans

If a Section 457 plan that meets the definition of a pension plan (a) is included in the financial statements of another government or (b) issues standalone financial statements, all accounting and financial reporting requirements that are relevant to pension plans should be applied.



All accounting and financial reporting requirements that are relevant to pensions should be applied to benefits provided through a Section 457 plan that meets the definition of a pension plan. For example, an employer or a nonemployer contributing entity should apply the requirements of Statement No. 96, Accounting and Financial Reporting for Pensions, as amended, or Statement 73, as amended, to such benefits, as appropriate. The requirements that are applied should be based on the specific type of benefits that are provided through the Section 457 plan, for example, defined contribution pensions.

GASB 97 ¶8 & 9

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GASB 97 – Certain Component Unit Criteria and Section 457 Plans

AOS GASB
FAQs Miscellaneous

GASB 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, addresses Section 457 Plans in paragraphs 6 - 9. These paragraphs are effective for fiscal years beginning after June 15, 2021. How do I determine if my 457 plan meets the definition of a pension plan?

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GASB 97 – Certain Component Unit Criteria and Section 457 Plans



A. In determining if a 457 plan meets the definition of a pension plan, refer to the definition of a pension plan included in GASB 67 ¶51 or GASB 73 ¶128 as follows:

Pension plans Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

It may be helpful to consider the definition of pensions as well:

Pensions Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.

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GASB 97 – Certain Component Unit Criteria and Section 457 Plans

EVALUATION

If there are no employer paid contributions, the 457 plans are generally not considered to be pension plans. When there are employer paid contributions, balancing the above definitions with the guidance from GASB 82, Pension Issues, paragraph 8 is appropriate. Reviewing the plan document may assist in this evaluation.

Materiality of the employer's participation in the plan may also be a consideration.

There is room for professional judgment in this evaluation and conclusions should be documented.

Once the determination is made, local governments should follow the applicable GASB guidance for either a pension plan (see GASB 97 paragraph 9) or an other employee benefit plan.


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GASB 97 – Certain Component Unit Criteria and Section 457 Plans

From GASB 82 ¶8

Classification of Employer-Paid Member Contributions

In some circumstances, payments are made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements. For purposes of applying Statement 67, those amounts should be classified as plan member contributions. For purposes of applying Statement 68, including for purposes of determining a cost-sharing employer's proportion, those amounts should be classified as employee contributions. An employer's expense and expenditures for those amounts should be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).




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2021

GASB 97 – Certain Component Unit Criteria and Section 457 Plans



The 457 plan requirements we have been discussing are found in paragraphs 6–9 of GASB 97 and are effective for fiscal years beginning after June 15, 2021.



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Upcoming Guidance from AOS


- School District Grants through CCIP
- GASB 83 Asset Retirement Obligations

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Questions?







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 Local Government Services
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 contactlgs@ohioauditor.gov

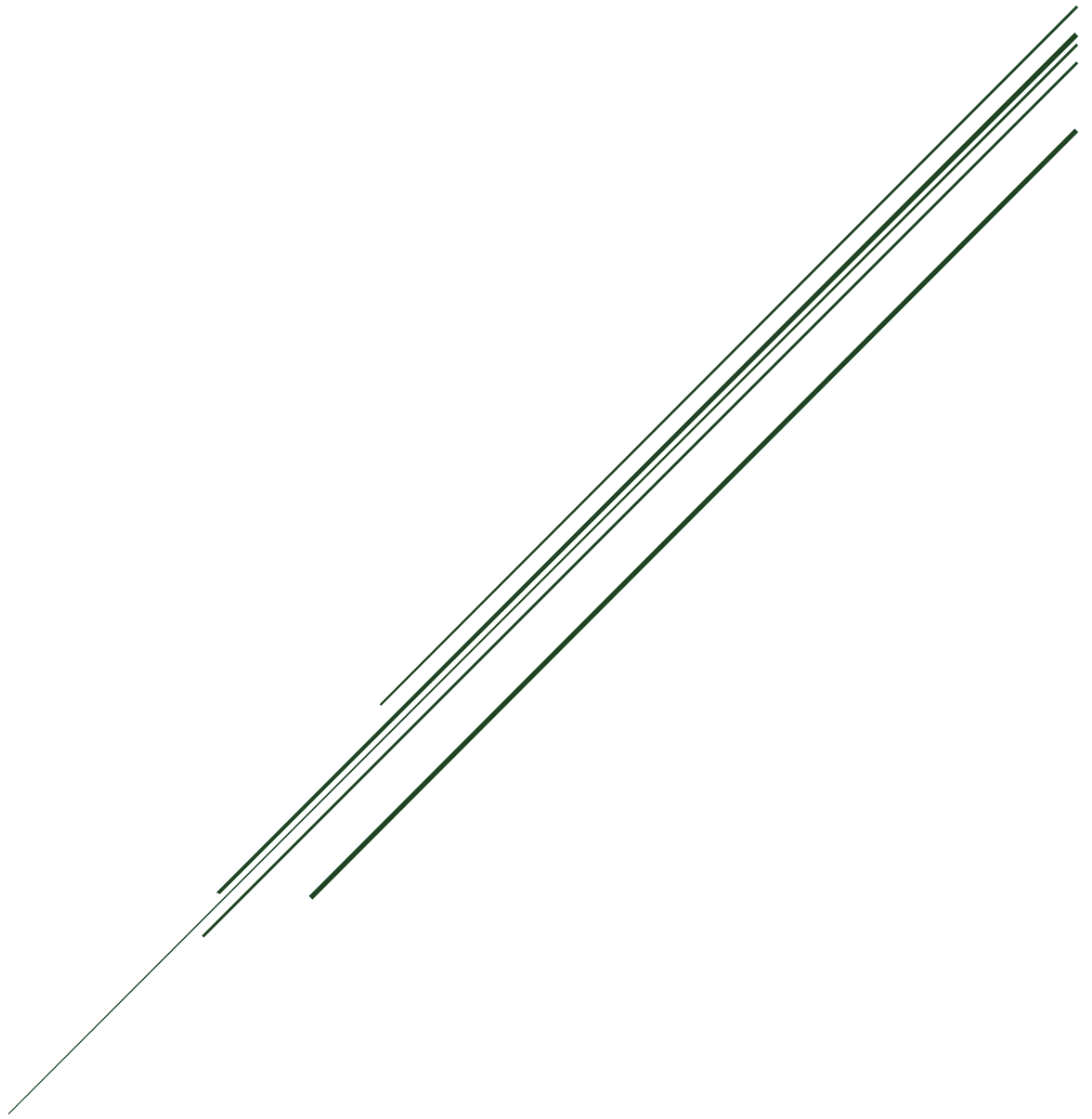
Efficient • Effective • Transparent

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PROFESSIONAL ETHICS: CONDUCT BEYOND REPROACH

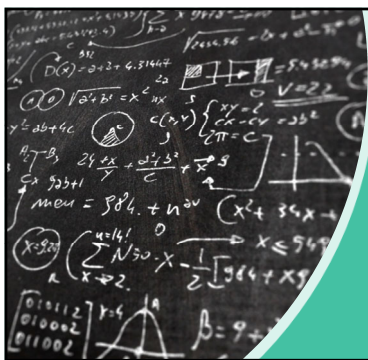
Slides





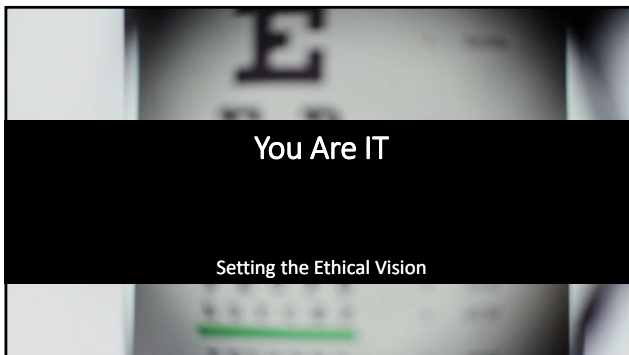
THE OHIO SOCIETY OF CPAs
ADVANCING THE STATE OF BUSINESS

Professional Ethics: Conduct Beyond Reproach



"Relativity applies to physics, not ethics." - Albert Einstein (1879-1955), Physicist and Nobel Laureate

I. Setting the Ethical Vision



You Are IT

Setting the Ethical Vision



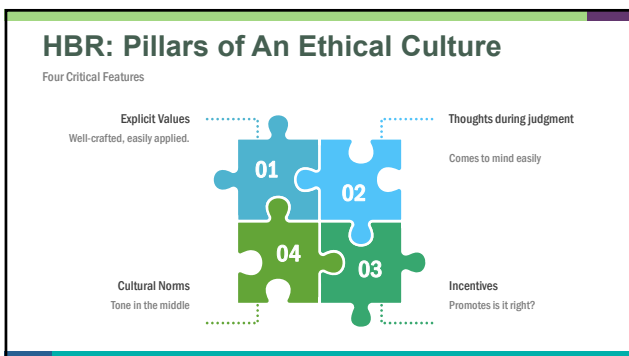
Ethical Vision Purpose

Answers specific questions

- ✓ What do we stand for?
- ✓ What do we want to prevent?
- ✓ What do we want to encourage?

<https://hbr.org/2019/05/how-to-design-an-ethical-organization>
[The Five Levels of an Ethical Culture Working Paper](#)

ETHICS SOCIETY OF CPA





What Can We Clean From This?

- Your ethics vision must try to simplify the complex
- Your ethics vision need to consider individual, group, and organizational dynamics
- You need to focus more attention on the middle

What Goes In Your Ethics Vision Statement

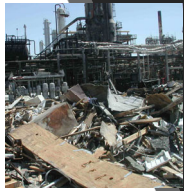
Clear Boundaries: The Broken Glass Concept

Explicit Statements: Get Uncomfortable

- Inappropriate relationships
- Alcohol-fueled behavior and illegal and legal drug use
- Sexual harassment and sexual assault
- Data privacy
- Expense account violations and misuse of corporate resources
- Conflicts of interest
- Fraud
- Sharing confidential information and trade secrets
- Corruption, bribery and gifts
- Employees use of social media



You're IT and You're It and You're IT
Ethics is Everyone's Responsibility



BP Explosion Case Study

In 2005, the BP Texas City Refinery exploded as the plant was restarting from a shutdown for routine maintenance. Fifteen people were killed, 180 were injured, and the immediate community suffered extensive damage. The explosion damaged buildings three quarters of a mile away. 43,000 people were ordered to shelter in place. BP suffered losses of over \$1.5 billion. At the time, BP had a corporate level goal of "no accidents, no harm to people"

The U.S. Chemical Safety and Hazard Investigation Board (CSB) investigated the cause of the accident. The immediate cause was release of flammable liquid geyser. At the organizational level, the root cause was a faulty corporate culture.

The next few slides asks us to analyze root causes against the pillars of ethical culture.


Setting Your Ethical Vision



Seven organizational findings were included in the root cause analysis, including "Plant management prioritized production and cost-cutting above safety". Which of the 4 pillars likely contributed **MOST** to this finding?

- a) Explicit values
- b) Cultural norms
- c) Thoughts during judgment
- d) Incentives


Setting Your Ethical Vision



Seven organizational findings were included in the root cause analysis, including "Lacked a reporting and learning culture". Which of the 4 pillars likely contributed **MOST to this finding**?

- a) Explicit values
- b) Cultural norms
- c) Thoughts during judgment
- d) Incentives

Setting Your Ethical Vision




Seven organizational findings were included in the root cause analysis, including "refinery managers did not lead by example on safety". Which of the 4 pillars likely contributed **MOST to this finding**?

- a) Explicit values
- b) Cultural norms
- c) Thoughts during judgment
- d) Incentives




"Shelving hard decisions is the least ethical course." - Sir George Adrian Cadbury (1929 -), Chairman of Cadbury and Cadbury Schweppes for 24 years

II. The Cost and Nature of Ethical Failures



12 Common Attributes of Ethical Failure


- Cognitive dissonance: personal and org. values
- Unrealistic discretionary bonuses and performance targets, no regard to market conditions or employee behavior
- Highly hierarchical and authoritarian
- Complacent leadership that hoards information
- High authority, low accountability leaders regarded as high-performing, high-status figures
- Employees cannot raise concerns without fear of retribution



12 Common Attributes of Ethical Failure

- Unclear and contradictory roles within groups and teams
- Intense rivalry among groups with highly differentiated access to power and resources
- Disempowered risk and compliance oversight functions
- High local autonomy with limited oversight
- Obsession with growth at all costs
- Hypercompetitive relationships with other organizations driven by short time horizons

Our Current Environment: A Perfect Mix



- 01 Social pressure / isolation
- 02 Economic downturn
- 03 Political uncertainty / unrest

Personal Health Factors

Mental
Are we checking in frequently and authentically?

Physical
Are we making reasonable accommodations easy?

Cognitive
Is it okay to slow down or step away and get help?

Resource:
<https://www.journaloffaccountancy.com/issues/2020/feb/mental-illness-depression-at-work-mark-cowan-cpa.html>

"Winning is nice if you don't lose your integrity in the process." - Arnold Horshack, Character on "Welcome Back, Kotter" (1975 - 1979) TV series

III. The Cost of Integrity

The Cost of Integrity: A Real Example

The Issue:
Alleged overcharging on a government contract and selling of defective equipment to the tune of millions of dollars

Who:
Jim Holzrichter,
Internal Auditor

Company:
Northrop
Grumman

Read It here: <https://www.fraud-magazine.com/article.aspx?id=4294988662>

The Cost of Integrity: A Real Example




What Happened:

- Noticed falsely inflated material costs
- Confronted company leadership
- Fired
- Filed claim under U.S. False Claims Act
- Blackballed by aerospace community, unemployable
- Became newspaper deliveryman and janitor
- Lived in homeless shelter and subsidized housing
- Attempts made to kill oldest son and daughter

**Probing thought:
Would you pay this price?**

The Cost of Integrity: A Real Example




The Final Resolution:

- 2005: Northrop Grumman settled with U.S. Govt. for \$134 million after 17 years
- 2007: Jim receives Taxpayers Against Fraud Whistleblower of the Year Award
- 2008: Jim receives Profile in Courage Award
- 2015: Jim presented with "Cliff Robertson Sentinel Award for Choosing Truth Over Self."


**Probing thought:
Would you feel vindicated?**

The Cost of Integrity



When I think about my company's ethics policies and procedures and my finance team:

- Everyone on my team could apply them
- Everyone on my team could explain them
- Everyone on my team could locate them
- I am not sure how well known they are



"The most important persuasion tool you have in your entire arsenal is integrity." - Zig Ziglar (1926 -), Motivational Speaker and Author

IV. Building Cultures of Integrity

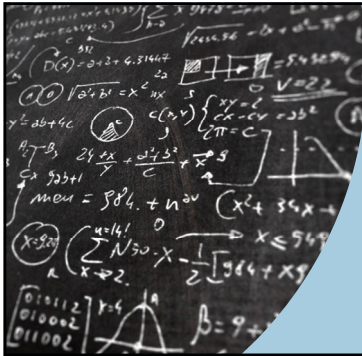
Ethical Leadership At A Glance





What Does Ethical Leadership Require?

1. Courage
2. Constant evaluation of processes and strategies
3. Transformational leadership
4. Transactional Leadership
5. Ethical sensitivity
6. Strong moral reasoning skills
7. Keen self-awareness
8. Keen situational awareness



Good leadership requires you to surround yourself with people of diverse perspectives who can disagree with you without fear of retaliation. **Doris Kearns Goodwin**


V. Ethics and Diversity

Belonging: From Comfort to Contribution



COMFORT CONNECTION CONTRIBUTION

Psychological Safety

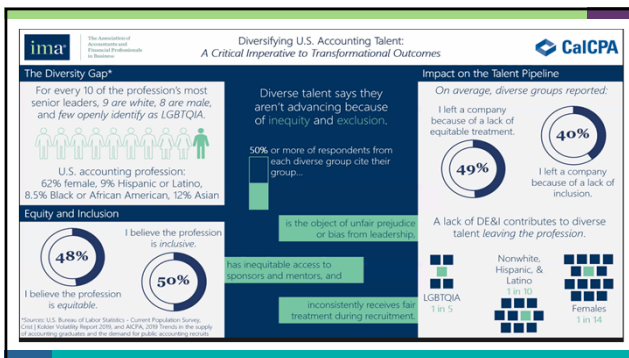


Psychological Safety
Listening
Concerns Voiced

Intergroup stress
Unethical behavior

Leadership Matters

- Who's isolated?
- Who's excluded from the informal networks and conversations?
- Whose story do you not know?







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CONFESSIONS OF FRAUDSTERS

Notes

