Independent Public Accountants (IPAs) must also provide written notification of potential abuse that provides the person(s) against whom the finding is contemplated an opportunity to rebut the allegations.

- The notice must include language of the abuse finding from the report and must be factually specific and detailed enough to allow the person(s) to understand the allegations made against them.
- Notice should be sent sufficiently in advance of any post-audit or exit conference so he or she has time to respond.
- IPAs are responsible for determining their own process for evaluating responses and reporting abuse.
- IPAs must notify the Regional Office when a potential abuse issue is identified and then again, whether or not the abuse comment will be issued in the audit report.

**Findings for Adjustment**

Audit procedure results may determine an audited entity has posted receipts to a fund having no authority to receive them, or has disbursed amounts not authorized from one fund but permissible from another.

In these instances, it may be appropriate to make a finding for adjustment, that is, a reallocation of receipts or disbursements to the proper funds. Whether the auditor recommends an adjustment, and the manner in which the auditor reports it depends on: (1) the nature of the adjustment, i.e., whether it is material, trivial, or immaterial; (2) whether the auditee agrees with the adjustment; and (3) whether the misallocation of funds also constitutes a violation of law warranting a noncompliance citation.

Potential adjustments fall into one of the following categories:

1. **Material** (at the opinion level) adjustments with which the auditee agrees, which have been posted to the accounting records and which are reflected in the audited financial statements;

2. **Material** (at the opinion level) adjustments with which the auditee disagrees and which are not posted to the accounting records or are not reflected in the financial statements (Note: If the client agrees and posts the adjustment to the financial statements but refuses to post the adjustment to the accounting records we will still issue a finding for adjustment to correct the accounting records);

3. **Immaterial** adjustments which are more than trivial. See discussion in the following section.
   a. This includes adjustments that are immaterial to opinion units, but material to one or more individual funds.

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8 *Trivial* as described in AU-C 450.A2, explains “trivial” is an amount the auditor designates, below which misstatements need not be accumulated. This amount is set so that any such misstatements, either individually or when aggregated with other such misstatements, would not be material to the financial statements, after the possibility of further undetected misstatements is considered.
Note: Auditors base materiality on opinion units when forming their opinion.

However, when assessing whether a finding for adjustment is a material noncompliance finding, auditors should normally consider materiality in relation to individual funds rather than the opinion unit. (Remember, GAGAS 4.25 also requires reporting noncompliance warranting attention by those charged with governance.) Considerations include:

- Judging whether measuring materiality against receipts, disbursements or fund cash balance is the most appropriate.
- Auditors may detect a finding for adjustment affecting two funds reported in the same opinion unit. This adjustment would have no effect on the financial statements (and the auditor’s opinion thereon), but may still represent reportable noncompliance if it is material to either of the two funds.

4 Trivial

Treatment of Adjustments in Audit Reports

Adjustments in the first category above based on a violation of legal authority will result in a noncompliance citation and possibly a material weakness or significant deficiency in accordance with AU-C 265 in the GAGAS report. The auditor should neither label the noncompliance as a Finding for Adjustment nor use a “finding for adjustment statement” (i.e. “In accordance with the foregoing facts, we hereby issue a finding for adjustment . . .”) but the finding should cite the legal criterion and briefly state the client has agreed to and posted adjustments which are also reflected in the financial statements. No modification of the auditor’s financial statement opinion is necessary because the adjustment corrected the material misstatement.

Adjustments in the second category and which are based on a violation of legal authority will result both in a noncompliance citation and normally a modified opinion paragraph in the auditor’s financial statement opinion. The noncompliance citation will also include a finding for adjustment statement (i.e. “In accordance with the foregoing facts, we hereby issue a finding for adjustment . . .”).

Adjustments in the third category (quantitatively immaterial but more than trivial) should be reported in the management letter if the misallocation of funds also constitutes a violation of law which warrants a noncompliance citation. However, auditors should report these adjustments in the GAGAS letter whenever qualitative considerations of materiality (for example, material at the fund level) outweigh the quantitative materiality amounts, or if the auditor deems the matter of sufficient importance that it requires additional “emphasis” by those charged with governance, per GAGAS 4.25.

- If the auditee agrees with the adjustment and has posted it, cite the law violated, but do not use the term finding for adjustment; do not include a finding for adjustment statement.

- If the auditee disagrees with the adjustment or has not posted it, cite the law violated, label the finding as a finding for adjustment, and include a finding for adjustment statement.
  o Consistent with unadjusted identified misstatements exceeding trivial, post the adjustment to the Summary of Unadjusted Difference (or similar documentation for IPAs) and carry forward each year to evaluate against the applicable opinion unit.
Trivial noncompliance adjustments will simply be noted in the audit working papers.

### Summary of Finding for Adjustment Reporting Treatment

<table>
<thead>
<tr>
<th>Material (At the opinion level) adjustments with which the auditee agrees, which have been posted to the accounting records and which are reflected in the audited financial statements:</th>
<th>Material (At the opinion level) adjustments with which the auditee disagrees and which are not posted to the accounting records or are not reflected in the financial statements:</th>
<th>Quantitatively Immaterial adjustments which are more than trivial (including those immaterial to opinion units, but material to one or move individual funds):</th>
<th>Adjustments which are trivial:</th>
</tr>
</thead>
<tbody>
<tr>
<td>If based on a violation of legal authority, report a noncompliance citation in the GAGAS report. Do not classify as a finding for adjustment.</td>
<td>If based on a violation of legal authority, report a noncompliance citation in the GAGAS report. AOS staff should include a finding for adjustment statement. (IPAs should not include a finding for adjustment statement.)</td>
<td>If based on a violation of legal authority, report a noncompliance citation in the GAGAS report and include a finding for adjustment statement. (IPAs should not include a finding for adjustment statement.)</td>
<td>Not reported in the GAGAS report.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Auditor’s report (opinion) on the financial statements</th>
<th>Adjustments which are based on a violation of legal authority will result in a qualified (or adverse) opinion on the financial statements, if the adjustment misstates opinion units.</th>
<th>Adjustments which are qualitatively material and are based on a violation of legal authority may result in a qualified (or adverse) opinion on the financial statements. This requires judgment.</th>
<th>No effect.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No modification of the auditor’s opinion.</td>
<td>Adjustments which are based on a violation of legal authority will result in a qualified (or adverse) opinion on the financial statements, if the adjustment misstates opinion units.</td>
<td>Adjustments which are qualitatively material and are based on a violation of legal authority may result in a qualified (or adverse) opinion on the financial statements. This requires judgment.</td>
<td>No effect.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management letter</th>
<th>Not applicable</th>
<th>Not applicable</th>
<th>If the misallocation of funds also constitutes a violation of law which warrants a noncompliance citation, a citation</th>
<th>Not reported in the management letter. Document in the working papers only.</th>
</tr>
</thead>
</table>
### Audit Findings

<table>
<thead>
<tr>
<th>Material (At the opinion level) adjustments with which the auditee agrees, which have been posted to the accounting records and which are reflected in the audited financial statements:</th>
<th>Material (At the opinion level) adjustments with which the auditee disagrees and which are not posted to the accounting records or are not reflected in the financial statements:</th>
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<th>Adjustments which are trivial:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>will be reflected in the management letter if the matter is quantitatively and qualitatively immaterial. AOS staff should include a finding for adjustment statement if the auditee does not agree to or post the adjustment. (IPAs should not include a finding for adjustment statement. Reporting the noncompliance citation alone is sufficient.)</td>
<td></td>
</tr>
</tbody>
</table>
Financial Statement Opinion Modified Paragraph Example

**Basis for Qualified Opinion**

During 20XX, Any Local School District expended $584,000 from the Bond Retirement Fund to pay employees’ salaries. Ohio Rev. Code §5705.10 restricts the use of the Bond Retirement Fund to debt retirement. Had this amount been properly expended from the General Fund, the effect would have been to decrease disbursements of the Bond Retirement Fund by $584,000 and increase the fund cash balance to $631,675 and to increase disbursements of the General Fund by $584,000 and decrease the fund cash balance to a deficit of $347,000 as of and for the year ended December 31, 20XX.

**Qualified Opinion**

In our opinion, except for the effects of the matter described in the **Basis for Qualified Opinion** paragraph, the financial statements referred to above present fairly . . .

When the table above suggests an opinion modification use language similar to this example (in this case, assume the effect was material to the general and bond retirement fund and that both are major funds). The result will be either a qualified (“except for”) or adverse opinion. A government can avoid a qualified or adverse opinion only if they adjust their accounting records. Auditors should document evidence that the agreed-to adjustments have been properly posted to the auditee’s accounting records. A mere commitment by the public office to adjust is insufficient. That is, the auditee has not agreed to the adjustment until she or he has posted it to the accounting system.

Finally, AU-C 450.11(b) requires auditors to consider the effect of uncorrected prior audit adjustments on the current audit. Therefore, auditors should consider whether uncorrected prior findings for adjustment affect the current audit’s financial statements.

**Findings for Adjustment Procedures for Independent Public Accountants (IPA)**

**Note:** This section has been re-written for clarity only; therefore the changes are not marked.

IPAs should follow the preceding guidance regarding **Findings for Adjustment** with the following modifications.

IPAs should report a noncompliance finding in their GAGAS report for the required matters listed above. However, IPAs should not label these as **findings for adjustment** and should not include the “finding for adjustment statement” (i.e. “In accordance with the foregoing facts, we hereby issue a finding for adjustment . . .”).\(^9\) When the IPA believes a finding for adjustment condition exists and the client does not agree with and does not make the adjustment, the following procedures apply:

- As soon as the IPA has evidence of a Finding for Adjustment, the IPA should contact the regional chief auditor.

- The IPA should provide the regional chief auditor with all relevant factual information, including supporting documentation for the Finding.

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\(^9\) This is to comply with Ohio Rev. Code §117.12 which states, “IPAs have no authority to make formal findings of illegality, malfeasance, or gross neglect under this division or section 117.23 of the Revised Code.”
• For example, it is not sufficient to send AOS a testing spreadsheet alone. IPA's need to also submit copies of the relevant client records that support the IPA's testing spreadsheet.

• The regional chief auditor should notify the Chief of Quality Assurance that a finding for adjustment may be issued via ipareport@ohioauditor.gov. The Center for Audit Excellence will put a hold on the report until the finding is approved.

• The regional Chief Auditor or designee will prepare a preliminary Finding, along with any supportive documentation, and submit it to the AOS Legal Division and also the Center for Audit Excellence via the IPA specialty in Spiceworks for consultation.

• The Legal Division and the Center for Audit Excellence will review the proposed Finding and may ask the chief auditor or the IPA for additional information.

• After the Legal Division and the Center for Audit Excellence have approved the Finding, the regional chief auditor or designee will send the proposed Finding for Adjustment to all applicable parties.

• The applicable parties are normally given five days to respond. If they respond, the regional chief auditor should evaluate the response and decide whether the Finding should be withdrawn or modified.

• The regional chief auditor must send a copy of AOS Legal Division’s approved finding to the Chief of Quality Assurance or designee, through ipareport@ohioauditor.gov, for inclusion with the Acceptance Letter. The Auditor of State will describe material, unadjusted Findings for Adjustment in the Acceptance Letter we include in the front of each report. The Chief of Quality Assurance, or designee, certifies the report with the Clerk of the Bureau.

Findings for Recovery

Ohio Rev. Code §117.28 authorizes the Auditor of State to report a finding for recovery in audit reports when legal action may be appropriate to recover public money or property. It is the policy of the Auditor of State to only issue a finding for recovery in whole dollars. Therefore, all finding for recovery amounts will be rounded down to the nearest whole dollar.

Ohio Rev. Code §117.01(C) defines public money as "any money received, collected by, or due a public official under color of office, as well as any money collected by any individual on behalf of a public office or as a purported representative or agent of a public office."

Under Ohio Rev. Code §9.24(H)(3) and §117.28, a finding for recovery may exist when:

• Public money has been illegally expended;

• Public money that has been collected has not been accounted for;

• Public money that is due has not been collected; or when