Ohio Auditor of State Mary Taylor's

Best Practices

www.auditor.state.oh.us    bestpractices@auditor.state.oh.us

Volume 5, Issue 3    Fall 2008

INSIDE

1 Letter from Auditor of State Mary Taylor, CPA

2 Got GAAP?

4 Spotlight: Crawford County, Ohio

6 Office Receives National Excellence Award

Generally Accepted Accounting Principles

Mary Taylor, CPA
Ohio Auditor of State
Dear Colleague,

My office is continuously searching for ways to improve accountability and increase efficiency within Ohio government. This issue of Best Practices highlights Generally Accepted Accounting Principles (GAAP) and points out the benefits GAAP can provide to Ohio taxpayers through enhanced government transparency.

GAAP provides a more detailed financial breakdown, providing taxpayers the opportunity to better understand how their dollars are being spent. All Ohioans should be afforded the right to review tax dollar expenditures in GAAP format. Although I understand that not every government entity currently reports its finances using GAAP, I encourage all organizations to move toward that goal.

As a state, we can achieve excellence in financial reporting by employing GAAP in all financial operations. More importantly, community leaders can help reduce the potential for fraud, waste and abuse of public funds thanks to the financial clarity GAAP provides.

The Auditor of State’s office has numerous resources available to assist entities with GAAP related issues and I encourage you to take advantage of these opportunities. For more information about the services and resources we offer, please contact my office at (800) 282-0370 or visit www.auditor.state.oh.us.

Sincerely,

Mary Taylor, CPA
Ohio Auditor of State
Got GAAP?
By Steve Faulkner, Public Affairs Staff Writer

When some people hear the word “gap” they might think of Gap, Inc., the popular clothing store chain with more than $15 billion in annual revenues. But in the world of accounting, the acronym “GAAP” takes on an entirely different meaning.

GAAP stands for Generally Accepted Accounting Principles and is the accounting standard many of Ohio’s public entities must follow. Ohio Administrative Code section 117-2-03 (B) states that, “all counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using GAAP.”

GAAP is an agreed upon set of accounting principles, standards and procedures that organizations use to compile their financial statements. Simply defined, GAAP is a common way of recording and reporting financial information.

Fred Kruse, CPA and chief auditor of the Ohio Auditor of State Mary Taylor’s Accounting and Auditing Section says, “GAAP is designed to produce financial statements that readers can use to analyze an entity’s financial position, results of operations and cash flows. For example, GAAP statements often identify a government heading towards financial difficulties, such as fiscal emergency, several years before cash-basis statements report problems.”

The accounting principles outlined in GAAP are “generally accepted” by the Governmental Accounting Standards Board (GASB). GASB’s mission is to establish and improve standards of state and local governmental accounting and financial reporting. Accounting professionals recognize the GASB as the official source of GAAP for state and local governments. The Financial Accounting Standards Board (FASB) does the same thing for the nation’s private sector companies.

“The Securities and Exchange Commission (SEC) has required GAAP for decades. Why should Ohio governments use a lesser standard?”

Fred Kruse, CPA and chief auditor of the Ohio Auditor of State Mary Taylor’s Accounting and Auditing Section

“Cash basis of accounting is oftentimes criticized for failing to show an organization’s financial ‘big picture.’ Cash basis omits critical financial information such as debt and other liabilities, as well as capital assets like buildings, vehicles, computer equipment and furniture.

Think of it this way: the typical family does not assess their financial condition simply by finding out how much they have in a checking account. Instead, they want to know how much credit card debt, mortgage debt, car loans and other obligations they owe. They also want to know the market value of their home, car or other items to assess their financial condition.

Similar to their finances at home, GAAP reporting allows taxpayers to gain a better understanding of their government’s financial condition. GAAP itemizes debt as a liability and shows whether or not an entity will have enough money, under current circumstances, to continue making timely payments when due. GAAP also requires entities to properly report how much is invested in capital assets. Capital asset reports include information about where assets are physically located, how old they are and how long until they will require replacement.

Ohio Auditor of State Mary Taylor’s Local Government Services (LGS) section serves as a resource to guide community leaders through the process of converting to GAAP. Reviewing the financial statements

Continued on page 3
of a similarly sized organization is also helpful. And gathering financial information throughout the year will help an entity meet filing deadlines once the fiscal year is over.

“The entity should maintain detailed records on investments, receivables, assets, employee leave balances, debt and other obligations, including amortization schedules and payment information,” says Dave Thompson, CPA and chief project manager with Auditor of State Mary Taylor’s Local Government Services section. “Care should be taken to ensure that accounts are reconciled monthly and not only should year-end data be available, but activity occurring throughout the year should also be detailed and available for use in supporting year-end financial statements.”

Most Ohio governments implement cash basis of accounting throughout the fiscal year, then convert to GAAP at year-end for financial reporting. Unfortunately, too many governments wait until after the fiscal year-end to start this process. Preparation for financial reporting should be an ongoing process that helps to alleviate last minute deadline work that is prone to errors and missed deadlines. With proper planning and assignment of duties, financial reporting is capable of being completed much sooner than the 150-day deadline imposed on Ohio’s GAAP governments. Kruse says the rules for private companies are much more stringent.

“SEC companies must report unaudited GAAP results quarterly within 45 days and audited annual statements within 90 days of each fiscal year end,” Kruse says. “Recent SEC rule changes are reducing these deadlines to 35 and 60 days respectively for larger entities. So, clearly it can be done.”

Assuming that proper financial records were kept throughout the year, the actual conversion of data should begin as soon as the fiscal year is closed out. The Auditor of State’s 150-day deadline is firm and the failure to meet that deadline may result in penalties assessed against the government entity.

“GAAP is a very powerful internal planning tool for government officials,” Thompson says. “Many individuals other than the fiscal officer play a part in the decision-making process of the entity, but few have first-hand knowledge of the detailed financial transactions of the entity.”

In the interest of improved accountability, it is important to provide decision makers, as well as local taxpayers, with a snapshot of an entity’s complete and accurate financial standing. GAAP financial statements accomplish this goal.

Oh, by the way, even Gap, Inc. files GAAP financial statements. The SEC requires it!

---

**GAAP Resources**

- Government Accounting Standards Board  
  www.gasb.org

- Government Finance Officers Association  
  www.gfoa.org

- The American Institute of Certified Public Accountants  
  www.aicpa.org

- The Ohio Society of Certified Public Accountants  
  www.ohioscpa.com

- Financial Accounting Standards Board  
  www.fasb.org

- The National Association of State Auditors, Comptrollers and Treasurers  
  www.nasact.org

- The U.S. Government Accountability Office  
  www.gao.gov

- U.S. Securities and Exchange Commission  
  www.sec.gov
For almost 20 years, Crawford County, Ohio has been commended for dedication to financial transparency and accountability. Since 1989, the county has received the Certificate for Excellence in Financial Reporting from the Governmental Finance Officers Association (GFOA). This distinction is given to state and local governments that exceed the minimum requirements established by generally accepted accounting principles (GAAP) including preparation of a comprehensive annual financial report (CAFR).

County Auditor Robin Hildebrand takes great pride in the fact that Crawford County has received the Certificate for Excellence in Financial Reporting for so many years. It is quite a professional achievement for Hildebrand because the majority of her years in public service have been spent in the Crawford County Auditor’s office. After assisting the Crawford County Auditor in various roles, Hildebrand was appointed to the helm on May 1, 2001. She is currently serving in her second full term.

According to Hildebrand, learning the ins and outs of GAAP was no more difficult than learning other requirements put forth in Ohio law. She considers her knowledge of county government an asset to learning the reporting style. When GAAP reporting was first established by the legislature, Hildebrand participated in training sponsored by Auditor of State Mary Taylor’s Local Government Services Section (LGS). Although there was a learning curve associated with changing to GAAP reporting, Hildebrand is reaping the benefits of knowing how to utilize this nationally recognized accounting standard. “By learning how to prepare GAAP financial statements in-house, Crawford County has been able to prepare them at minimal cost to the taxpayer,” says Hildebrand.

Pete Sorem, chief of LGS, says that Crawford County is an excellent example of utilizing GAAP reporting to its fullest potential because the County Auditor employees are responsible for creating the statements each year. Sorem believes that the act of compiling the information is a valuable learning experience.

“Understanding how to read and explain a GAAP report is important, however the knowledge and understanding that is gained by putting the report together can be even more beneficial,” Sorem says. Additionally, Crawford County is a model for others because they use their GAAP statements on a regular basis. For example, the County Auditor’s office uses the report to answer questions and compile financial data for county projects.

Crawford County has also been able to identify areas of concern because of GAAP statements. For example, the information helped them identify financial issues involving the county owned and operated landfill and verify the financial status of the county self-insurance health and worker’s compensation programs.

“Continued on page 5

"In these times of economic uncertainty, the public’s demand for accountability, communication and understanding of how their tax dollars are being spent is at an all-time high. Preparing GAAP financial statements and a CAFR is just one way that I can communicate and provide financial data that will increase accountability and understanding of local government which in turn will hopefully increase public confidence in county government and its elected officials."
There are many resources available for state and local government entities who want to learn more about GAAP. Hildebrand states that LGS has been invaluable to Crawford County. “From the beginning, LGS understood the importance for all local governments, big and small, to know how to prepare GAAP statements,” Hildebrand said. Additionally, the GFOA has tools for community leaders interested in GAAP and government entities that already prepare GAAP statements are often willing to help.

Ultimately, Hildebrand feels that, “preparing GAAP financial statements shouldn’t be viewed any differently than other legal mandates of the office.” She sees the cost of preparing GAAP financial statements or a CAFR as an investment in the taxpayers rather than as a cost to the taxpayers. To Auditor Hildebrand and the citizens of Crawford County, it is clear that the benefits of GAAP are well worth the effort.

GAAP Advice

Crawford County Auditor, Robin Hildebrand

- Make the financial statements meaningful to the public entity and its taxpayers. Don’t just hire a consultant to prepare the statements without the entity’s guidance, understanding and input.

- The added value of preparing GAAP statements is the knowledge gained by the public entity during the compilation process.

- If a consultant is hired, and there isn’t any input from the public entity, that added value is generally eliminated. Also, a consultant generally does not have a vested interest in communicating the goals and objectives of the public entity.

- Preparing a CAFR gives a public entity a wonderful opportunity to communicate with its citizenry. If a consultant puts the report together, many times this opportunity is not realized.

- Financial statements should be a reflection of the officials responsible for compliance with Ohio law and proper communication to the taxpayers.
Auditor’s Office Receives National Excellence Award

COLUMBUS - The National White Collar Crime Center is honoring Ohio Auditor of State Mary Taylor’s office with the 2008 NW3C Member Agency Award for Excellence. Award recipients are NW3C member agencies whose accomplishments most exemplify support for the organization’s goal: providing a nationwide support system for agencies involved in the prevention, investigation and prosecution of economic and high-tech crimes.

“It is an honor to be recognized for our commitment to the prevention and detection of white collar crimes,” Taylor said. “I am pleased to accept this award on behalf of my office’s Special Investigations Unit and Special Audit Section which are committed to providing local government officials with additional tools to prevent and detect fraud.”

As part of Auditor Taylor’s commitment to providing local organizations with the resources needed to combat fraud and improve accountability to Ohio’s taxpayers, her office held four unique statewide training seminars aimed at assisting local government entities and law enforcement authorities in the detection, prevention and investigation of white collar crimes.

This training, coupled with the hard work of the Auditor of State’s Special Investigations Unit and Special Audit Section, helped bring about outstanding community achievements in the areas of localized training, statewide events and numerous partnerships with agencies at the local, state and national levels.

Rooting out fraud, waste and abuse in government spending is a top priority for Auditor Taylor and she takes great pride in her office’s successes thus far.

Ohio Auditor of State Regional Offices

Columbus/State
88 East Broad Street, 10th Floor
Columbus, Ohio 43215
Phone: (614) 466-4514
(800) 282-0370
Fax: (614) 466-4490

Akron/Canton
101 Central Plaza South
700 Chase Tower
Canton, OH 44702
Phone: (330) 438-0617
(800) 443-9272
Fax: (330) 471-0001

Athens
743 E. State Street, Suite B
Athens Mall
Athens, Ohio 45701
Phone: (740) 594-3300
(800) 441-1389
Fax: (740) 594-2110

Cincinnati
11117 Kenwood Road
Blue Ash, Ohio 45242
Phone: (513) 361-8550
(800) 368-7419
Fax: (513) 361-8577

Cleveland
Lausche Building, 12th Floor
615 Superior Avenue, NW
Cleveland, Ohio 44113
Phone: (216) 787-3665
(800) 626-2297
Fax: (216) 787-3361

Dayton
One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402
Phone: (937) 285-6677
(800) 443-9274
Fax: (937) 285-6688

Toledo
One Government Center, Room 1420
Toledo, Ohio 43604
Phone: (419) 245-2811
(800) 443-9276
Fax: (419) 245-2484

Youngstown
Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, OH 44503
Phone: (330) 797-9900
(800) 443-9271
Fax: (330) 797-9949
We welcome your feedback. If you would like to recommend topics for future editions or have examples of Best Practices to share, please e-mail us at bestpractices@auditor.state.oh.us