

AUDITOR OF STATE BULLETIN 98-007

September 3, 1998

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| TO: | County Family and Children First Councils County Auditors Boards of County Commissioners County Boards of Alcohol, Drug Addiction and Mental Health Services County Boards of Health City Health Districts County Departments of Human Services County Departments of Children Services County Boards of Mental Retardation and Developmental Disabilities County Boards of Education or Educational Service Centers County Juvenile Courts Independent Public Accountants |
| SUBJECT: | County Family & Children First Councils: Financial Reporting and Internal Controls; Audits; Allowable Costs; Appointment of Administrative Agent and Budgeting |

The purpose of this bulletin is to:

- Clarify the responsibilities of the County Family and Children First Councils (FCFCs) in the areas of financial reporting and internal controls;
- Explain the nature, timing, and scope of the Auditor of State's audit of the FCFCs and the standards applicable to those audits;
- Discuss the significant revisions to Ohio Rev. Code Section 121.37, which became effective October 1, 1997, requiring all FCFCs to appoint an administrative agent and file an annual budget.

FINANCIAL REPORTING AND INTERNAL CONTROLS

The FCFC is responsible for maintaining accounting records and such other documentation of council activities that would enable it to prepare, or have prepared on its behalf, cash basis financial statements and to demonstrate compliance with applicable laws, regulations and contracts. Typical records include evidence supporting proper receipt and expenditure of funds, minutes of meetings, contracts and grant agreements, and program guidance from grantors.

The FCFC is responsible for the design and implementation of an internal control process that provides reasonable assurance as to the integrity of its financial reporting, the safeguarding of its assets, the efficiency and effectiveness of its operation, and its compliance with applicable laws, regulations and contracts.

In designing its internal control process, the FCFC should consider policies and procedures that provide for the following:

- Appropriate authorization and approval of transactions
- Adequately designed records to facilitate classification and summarization of transactions
- Security of assets and records
- Segregation of incompatible duties
- Periodic reconciliations of account balances
- Periodic verification of assets

COUNCIL AUDITS

Audits of FCFCs for years ended December 31, 1997 and after will be scheduled to coincide with the audit of its respective county. Although scheduled concurrently, the FCFC audits will be separate engagements from the county audits and the audit costs will be the responsibility of each FCFC. Each FCFC will be audited biennially, unless the FCFC expends \$300,000 or more of federal funds in a calendar year. In such cases, the FCFC is required to have an annual audit performed in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* All audits will be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS).

ALLOWABLE COSTS

FCFCs may receive funds from federal, state, local, and private sources. OMB Circular A-87, along with the terms and conditions of federal grants, provide the guidance for allowable costs to be charged against the federal grants. Policies of the state and local grantor agencies and the terms and conditions of the grants provide the guidance for allowable costs to be charged against state and local grants.

Generally, costs must be necessary and reasonable for the intended purpose of the funds provided. In addition, they must be consistent with the laws, regulations, contracts, and agreements that govern the expenditure of such funds.

REVISIONS TO LEGISLATION - FCFC ADMINISTRATIVE AGENTS AND BUDGETS

Administrative Agents

House Bill 215, effective October 1, 1997, amended Ohio Rev. Code Section 121.37 to require each FCFC to designate an administrative agent for the FCFC. The administrative agent must be selected from one of the public entities listed in the legislation, and **is required** to perform the following functions which may not be delegated to another entity:

- Serve as the FCFC's appointing authority; and
- Ensure that all expenditures are handled in accordance with policies, procedures, and activities prescribed by State departments in rules or interagency agreements that are applicable to the

FCFC's functions.

The amended legislation further provides that the administrative agent **may** be charged with other administrative and fiscal responsibilities such as

- Entering into agreements or administering contracts with public or private entities to fulfill specific FCFC business;
- Provide financial stipends, reimbursements, or both to family representatives for expenses related to FCFC activity;
- Receive by gift, grant, devise, or bequest any monies, lands, or other property for the purposes for which the FCFC is established. The agent must hold, apply, and dispose of the monies, lands, or other property according to the terms of the gift, grant, devise, or bequest.

We recommend that all duties which have been delegated by the FCFC to its administrative agent be documented in a **written** administrative agent agreement. This agreement should clearly outline the specific authority and responsibility of each party. Recommended items to address in the agreement include:

- What financial records the administrative agent will provide to the FCFC on a monthly basis for the FCFC's review (e.g. detailed ledgers reflecting actual receipts and disbursements of the FCFC as compared to budgeted receipts and disbursements, including a breakdown of receipts and disbursements for each federal award, and periodic reports required by grantor agencies that are prepared by the administrative agent).
- Whose responsibility it is to prepare the monthly financial information which is presented to the FCFC, as well as, the FCFC's year-end financial statements and Schedule of Expenditures of Federal Awards which are presented for audit.
- Whose responsibility it is to identify federal financial assistance to subrecipients and auditors.
- If the administrative agent has the role of passing-through grants on behalf of the FCFC, the agreement should address what subrecipient monitoring responsibilities the FCFC is delegating to the administrative agent. (See Circular A-133, Subpart D-*Federal Agencies and Pass-Through Entities*, §.400(d))
- If the administrative agent, acting as the appointing authority for the FCFC, is given the authority to contract with service providers when administering federal or state programs awarded to the FCFC, the administrative agreement should require the administrative agent to enter into **written** provider contracts. The FCFC should agree as to what information is included in those contracts.
- What exactly are the responsibilities of the administrative agent? What responsibilities has the FCFC delegated to the administrative agent? (e.g., signing all grant agreements **on behalf of** the FCFC, administering all programs in accordance with the terms and conditions of the agreements including any federal regulations, preparing all periodic grant reports that may be required by grantor agencies, ensuring that funds received on behalf of the FCFC are deposited and invested in accordance with Ohio law, maintaining supporting documentation for all council financial

activity in accordance with Ohio records retention laws and making that information available for audit.)

- The administrative agent agreement should be signed by 1) the FCFC Chairman; 2) the FCFC Coordinator; and 3) the Administrative Agent.

In situations where an administrative agent is relying on a public or private entity to perform FCFC fiscal functions (e.g., processing transactions and preparing monthly and year-end financial statements), the administrative agent should enter into **awritten** agreement with that entity. Recommended items to address in the agreement include:

- Responsibility for authorizing transactions.
- Responsibilities for maintaining detailed financial records and supporting documentation.
- Establishment of budgetary controls.
- Format and level of detail of financial information to be provided by the fiscal agent to the administrative agent.
- Frequency by which financial information will be provided.
- Responsibility for preparation of year-end financial statements.
- The fiscal agent agreement should be signed by the Administrative Agent and the Fiscal Agent.

The administrative and fiscal agent duties listed above are recommended to enhance the FCFC's internal accounting and administrative controls, and facilitate its effective and efficient operation. However, a FCFC's organizational structure and relationship with its administrative and fiscal agents may require internal accounting and administrative controls above and beyond those listed above. Ultimately, it is the FCFC's responsibility to design and place in operation internal controls that are adequate to enable it to maintain fiscal accountability and comply with applicable laws and regulations.

Budgets and Financial Reporting

In addition to appointing an administrative agent, effective October 1, 1997, FCFCs are now required to file an annual budget with their administrative agent, with copies filed with the County Auditor and the Board of County Commissioners, unless the Board is the FCFC's administrative agent. The amended legislation does not specify the level of detail of the budget or a filing deadline. However, in an effort to provide budgetary and financial reporting consistency throughout the State, the Auditor of State recommends the following:

1. Either the County Auditor or an Educational Service Center (ESC) should be appointed by the FCFC (or appointed by the FCFC's administrative agent if the County Auditor or the ESC is not the administrative agent) to serve as its fiscal agent. We believe this provides the most effective and efficient means of accounting and budgetary integration.

2. The fiscal agent should establish separate funds within its accounting system to maintain the FCFC activity (i.e., one fund for all unrestricted monies of the FCFC, and one fund for each source of restricted monies of the FCFC). While FCFC activity should be presented as an Agency Fund of the fiscal agent for year-end reporting purposes, it may be necessary for the fiscal agent to maintain the activity in another type of fund (i.e., General Fund or Special Revenue Fund) in order to maintain integrated budget and actual information throughout the year.

It should be the responsibility of the FCFC or its administrative agent to notify the fiscal agent when restricted monies are received so that separate funds may be established. This responsibility should be delineated in the administrative agent agreement.

3. Each FCFC fund maintained by the fiscal agent should be budgeted. Although Ohio Rev. Code Section 5705 does not apply to FCFCs, we advise that an estimate of financial resources and an appropriation measure be passed and filed with the fiscal agent on or near the first day of the calendar year. We recommend the appropriation measure be prepared with the following minimum level of detail:

Personal Services

Utilities

Contractual Services

Supplies & Materials

Capital Outlay

Miscellaneous

In addition, FCFCs should implement the same encumbering procedures as that of its fiscal agent. The authority to initiate and approve purchase orders should be delineated in the fiscal agent agreement.

In situations where the FCFC has appointed a not-for-profit agency to serve as the FCFC's fiscal agent, we advise the FCFC require the not-for-profit organization to maintain an accounting system which allows for budgetary integration. This requirement should be contained in the fiscal agent agreement.

4. On a periodic basis, the FCFC should receive financial reports from its fiscal agent which permit the performance of budget to actual comparisons. If necessary, the budget should be revised to reflect changes in conditions.

5. For year-end fiscal agent financial reporting purposes, all FCFC funds should be aggregated into one fund and presented as an Agency Fund on the financial statements. For FCFC financial reporting purposes, the unrestricted fund should be presented as the FCFC's general fund and each restricted fund should be presented as a special revenue fund. On the following page, we have provided an illustrative example of an administrative/fiscal agent appointment which we believe will be common and its

appropriate accounting treatment.

If you have any questions concerning this bulletin, please contact Greg Kelly, Assistant Chief Deputy Auditor or Kelly Jordan, Department of Accounting and Auditing Support at 1-800-282-0370.

Illustrative Example

County Department of Mental Retardation and Developmental Disabilities appointed as

Administrative Agent - County Auditor serves as Fiscal Agent

On September 15, 1997, the Any County Family & Children First Council (the Council) passed a resolution appointing the Any County Department of Mental Retardation and Developmental Disabilities (DMRDD) as the Council's administrative and fiscal agent effective October 1, 1997. A written administrative/fiscal agent agreement was entered into and signed by the Council, the DMRDD, and the County Auditor. (Although the Council appointed the DMRDD as the fiscal agent, the County Auditor statutorily serves as the fiscal agent for the DMRDD, therefore the fiscal agent responsibilities are passed on to the County Auditor. As set forth in the fiscal agent agreement, the County Auditor's responsibility consists solely of processing transactions at the direction of the DMRDD which is the Council's administrative agent.). In order to carry-out the administrative functions, the DMRDD assigned two of its employees to perform these administrative duties, in addition to performing their normal DMRDD functions. To account for the Council's fiscal activity, the DMRDD requested the County Auditor establish three Family & Children First Council Funds; one for unrestricted monies, and two for different sources of restricted monies. (See Page 9)

Prior to October 1, 1997, The Helping Hand Agency, a not-for-profit agency located in the County, served as the Council's fiscal agent. On that date, The Helping Hand Agency remitted the balance of the Council's funds on deposit (\$20,000) to the DMRDD. The DMRDD paid the funds into the Family & Children First Unrestricted Fund as evidenced by a pay-in issued by the County Auditor. As the appointed administrative agent, it was DMRDD's responsibility to ensure the funds were receipted into the appropriate fund with the appropriate receipt coding. (Other Receipts). This responsibility was delineated in the written administrative/fiscal agent agreement.

During the period October 1 through December 31st, the Council received the following sources of funding:

1. \$250,000 Federal Program A - Restricted
2. \$ 50,000 Local Match for Federal Grant A Provided By Local County Social Service Agencies which are Members of the Council - Restricted
3. \$200,000 Federal Program B - Restricted
4. \$ 17,000 Administration Grant from the State of Ohio - Unrestricted

5. \$ 1,500 Proceeds from Sale of Used Computer - Unrestricted

As the appointed administrative agent, the DMRDD received and deposited these funds. The DMRDD was responsible for ensuring the funds were appropriately recorded into the Family & Children First Funds by the County Auditor.

Illustrative Example

(Continued)

Also, since the DMRDD agreed to carry-out the federal programs on behalf of the Council, it is the DMRDD's responsibility to ensure that an accounting system is maintained either by the County Auditor or the DMRDD which segregates (or otherwise adequately accounts for) the federal receipts and expenditures by program. If the DMRDD, as administrative agent of the Council, passes these funds through to another county agency or not-for-profit agency (i.e., subrecipient), so that they may administer the program, it is the DMRDD's responsibility, as administrative agent of the Council, to monitor the subrecipient to reasonably ensure the program has been administered in accordance with all applicable federal and state requirements.

The DMRDD employees maintained a tracking system to record the number of hours worked performing Council administrative functions by federal program and the number of hours worked performing normal DMRDD functions. Each bi-weekly pay period, the DMRDD calculated the total salary of the two employees which was attributable to Council administrative functions and submitted the information to the County Auditor. At the inception of the fiscal agent agreement, it was agreed that all DMRDD salaries attributable to Council administration would be paid bi-weekly from the County DMRDD Special Revenue Fund and then reimbursed at year-end from Council monies. To track the portion of salaries attributable to Council administration, the County Auditor established a sub-account within the DMRDD salary account. During 1997, these salaries amounted to \$2,000. When reimbursed at year-end, the County Auditor recorded a "reduction of an expenditure" in the DMRDD Special Revenue Fund and a \$2,000 "Personal Services" expenditure in the appropriate Family & Children First Fund.

During the period October 1 through December 31st, the DMRDD employees purchased \$3,000 of supplies and materials for Council administration purposes. The employees followed the same purchasing policies and procedures as required by all County Departments. The purchases were made from the Family & Children First Unrestricted Fund (See Page 9). All supporting documentation of the purchase(s) was presented to the Council for review at the next regularly scheduled Council meeting following the purchase(s).

As outlined in the written administrative agent agreement, the DMRDD was responsible for preparing monthly and year-end financial statements for the Council. To do so, the DMRDD uses the information maintained by the County Auditor within the three Family & Children First Council Funds. (See Page 10).

Illustrative Example - Continued

Accounting Treatment of FCFC Activity as Maintained by the County Auditor

Below are the FCFC funds which have been established by the County Auditor and maintained on a cash basis throughout 1997.

No budgetary information is shown here as the FCFC did not adopt a budget until 1998.

| | Family and Children First Council Unrestricted | Family and Children First Council Restricted A | Family and Children First Council Restricted B |
|--|---|---|---|
| RECEIPTS: | | | |
| Intergovernmental Revenues | \$17,000 | \$300,000 | \$200,000 |
| Other Receipts | 21,500 | | |
| TOTAL RECEIPTS | 38,500 | 300,000 | 200,000 |
| DISBURSEMENTS: | | | |
| Personal Services | 2,000 | | |
| Utilities | | | |
| Contractual Services | | | |
| Supplies and Materials | 3,000 | | |
| Capital Outlay | | | |
| TOTAL DISBURSEMENTS | 5,000 | 0 | 0 |
| EXCESS OF RECEIPTS OVER/(UNDER) DISBURSEMENTS BEFORE INTERFUND TRANSFERS AND ADVANCES | 33,500 | 300,000 | 200,000 |
| Transfers-In | | | |
| Advances-In | | | |
| Transfers-Out | | | |
| Advances-Out | | | |
| TOTAL INTERFUND TRANSFERS AND ADVANCES | 0 | 0 | 0 |
| TOTAL RECEIPTS OVER/UNDER DISBURSEMENTS | 33,500 | 300,000 | 200,000 |
| BEGINNING FUND BALANCE, JANUARY 1 | \$0 | \$0 | \$0 |
| ENDING FUND BALANCE, DECEMBER 31 | \$33,500 | \$300,000 | \$200,000 |

(Note: These three funds were aggregated into one fund and reported as an Agency Fund of the County for year-end reporting purposes.)

Below is the County's DMRDD fund at year-end as maintained on a cash basis throughout the year by the County Auditor.

Tickmark (A) indicates that line-item within the DMRDD fund which incurred activity relating to FCFC activity as discussed in the Example on the previous page.

| | COUNTY SPECIAL REVENUE FUND <u>DMRDD</u> |
|--|--|
| RECEIPTS: | |
| Intergovernmental Revenues | \$600,000 |
| All Other Receipts | 6,000 |
| TOTAL RECEIPTS | 606,000 |
| DISBURSEMENTS: | |
| General Government: | |
| Legislative & Executive | |
| Judicial | |
| Public Safety | |
| Public Works | |
| Human Services | 625,000 (A) |
| Miscellaneous | 125,000 |
| Capital Outlay | 5,000 |
| TOTAL DISBURSEMENTS | 755,000 |
| RECEIPTS OVER/UNDER DISBURSEMENTS | (149,000) |
| OTHER FINANCING SOURCES/(USES): | |
| Transfers-In | |
| Advances-In | |
| Transfers-Out | |
| Advances-Out | |
| TOTAL OTHER FINANCING SOURCES/(USES) | 0 |
| BEGINNING FUND BALANCE, JANUARY 1 | \$135,000 |
| ENDING FUND BALANCE, DECEMBER 31 | \$135,000 |
| RESERVE FOR ENCUMBRANCES, DECEMBER 31 | \$3,200 |

(A) - \$2,000 of salaries were attributable to Family & Children First Council administration during the year. The salaries were paid bi-weekly from this fund and line-item. At year-end, a "reduction of an expenditure" was posted to this line-item as \$2,000 was received from the Council Unrestricted Fund.

Illustrative Example - Continued

FCFC Financial Statement as Prepared by the DMRDD

No budgetary information is presented as the FCFC did not adopt a budget until 1998.

ANY COUNTY FAMILY & CHILDREN FIRST COUNCIL
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 ALL GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1997

| | GENERAL FUND | SPECIAL REVENUE | (Memorandum Only) TOTAL |
|---|-----------------|--------------------|-------------------------------|
| RECEIPTS: | | | |
| Intergovernmental Revenues | \$17,000 | \$500,000 | \$517,000 |
| Miscellaneous | 21,500 | | 21,500 |
| TOTAL RECEIPTS | <u>38,500</u> | <u>500,000</u> | <u>538,500</u> |
| DISBURSEMENTS: | | | |
| Personal Services | 2,000 | | 2,000 |
| Utilities | | | 0 |
| Contractual Services | | | 0 |
| Supplies and Materials | 3,000 | | 3,000 |
| Capital Outlay | | | 0 |
| Miscellaneous | | | 0 |
| TOTAL DISBURSEMENTS | <u>5,000</u> | <u>0</u> | <u>5,000</u> |
| TOTAL RECEIPTS OVER/(UNDER) DISBURSEMENTS | 33,500 | 500,000 | 533,500 |
| BEGINNING FUND BALANCE, JANUARY 1 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| ENDING FUND BALANCE, DECEMBER 31 | <u>\$33,500</u> | <u>\$500,000</u> | <u>\$533,500</u> |
| RESERVE FOR ENCUMBRANCES, DECEMBER 31 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |