

AUDITOR OF STATE BULLETIN 99-002  
FEBRUARY 5, 1999

Audit testing related to  
this Bulletin is in OCS  
step O-3.

TO: ALL SCHOOL DISTRICT TREASURERS  
ALL EDUCATIONAL SERVICE CENTER TREASURERS  
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: FOOD SERVICE INTEREST ALLOCATION

This bulletin clarifies the issue of food service interest allocation.

In 1997, the United States Department of Agriculture (USDA) distributed a letter (identification # MWCN-100 NT 1) reminding all Ohio school districts operating food service programs which receive federal funding of the following:

Federal regulations state that, "School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service....(7 CFR Part 210.14(a)). 7 CFR Part 210.2 defines revenue as, "all monies received by or accruing to the nonprofit school food service in accordance with the State agency's established accounting system, including but not limited to, children's payments, earnings on investments, other local revenues, state revenues, and Federal cash reimbursements." The inclusion in this definition of a "State agency established accounting system" does not allow for State policy which violates these federal regulations. State agencies may require specific accounting systems, but such systems may not direct food service funds, including the interest earned on such funds, away from the school food service account."

Many schools have contacted our office requesting clarification of this letter and the cited regulation. Specifically, there is a question as to whether or not the amount of interest to be allocated to the food service program is based solely upon the amount of federal funding or total monies within the fund. Also, there is question as to the method of allocation given the fact that federal funding received for food service programs in Ohio is normally received on a reimbursement basis.

We have researched the Code of Federal Regulations and have communicated directly with the Regional Director of Financial Management for the USDA to confirm the USDA's position given the regulations and the manner in which food service programs are funded in the State of Ohio. Any interest earned on the cash balance of a food service fund, whether those funds originated from federal, state, or local sources (including transfers or advances from other funds to temporarily assist the operation of the food service program), must be credited to that fund.

This guidance should be applied by March 1, 1999. Failure to apply this guidance after March 1, 1999, will result in the issuance of a Finding for Adjustment within the entity's audit report if the amount involved is greater than \$100. If the amount involved is greater than \$10,000 a Federal Questioned Cost will also be reported.

If you have any questions about this bulletin, please contact the Department of Accounting & Auditing Support at (800) 282-0370.

Auditor of State Bulletin 99-005  
March 24, 1999

TO: All City Auditors, Finance Directors and Treasurers  
All Village Clerks and Treasurers  
All Township Clerks  
All County Auditors  
All Independent Public Accountants

SUBJECT: Accounting for FEMA Hazard Mitigation Grants

The Auditor of State's Office recently issued a Bulletin (Bulletin 98-013) that discussed recommended accounting procedures for FEMA Public Assistance grants administered by the Ohio EMA. The purpose of this Bulletin is to address the federal Hazard Mitigation Grant Program also administered by Ohio EMA.

The program was created to assist states and local governments in implementing long term mitigation measures after a disaster declaration. The objectives of the program are to prevent future losses of lives and property due to disasters, to provide funding for State and local mitigation plans and to enable mitigation measures to be implemented during a community's immediate recovery from a disaster.

The program can fund up to 75% of the eligible costs of an approved project. The required local match may be cash, in kind services or materials. Funding is generally provided in advance of program expenditures unless a recipient is designated high risk. High risk projects are funded on a reimbursement basis. Program money must be expended within a reasonable time from receipt, generally within thirty days. All costs associated with the program must be documented and the local government must be able to demonstrate compliance with the local match requirements. Specific guidelines for mitigation grants are available from the Ohio EMA, Mitigation Branch, by calling (614) 799-3530.

The grant program should be accounted for in a separate fund. All federal money should be receipted directly into this fund. The Auditor of State recommends that all program expenditures be accounted for in this fund. Money representing the local share may be transferred by resolution or ordinance into the program fund from the general fund. If the program is funded on a reimbursement basis, the amount representing the federal share may be advanced to the program fund from the general fund and then repaid once the federal money is received.

Appropriate fund numbers are as follows:

Villages	Alpha-Numeric	Numeric
Special Revenue Fund	B5 or B16	2901-2999
Capital Projects Fund	D2	4901-4999
Townships	Alpha-Numeric	Numeric
Special Revenue Fund	14	2901-2999
Capital Projects Fund	14	4901-4999

Note: AOS no longer prescribes alpha-numeric fund codes for villages, but does not object to governments that might still use them.

Cities and counties receiving FEMA grants should establish separate funds within their chart of accounts.

No additional Auditor of State approval is necessary to establish the FEMA funds; only a resolution or ordinance of the legislative authority is needed. The classification of the fund as special revenue or capital projects will depend on the nature of the expenditures that will be made.

For all FEMA money, the correct receipt code to use is one which identifies the money as coming from the federal government.

UAN villages will use receipt code 411 - Federal Restricted. Non-UAN villages will use receipt code D-141 - Federal Receipts. UAN Townships will use receipt code 511 - Federal Receipts. Non-UAN townships will use receipt code 14-C - Other Receipts.

Questions concerning this Bulletin should be addressed to the Local Government Services Division of the State Auditor's Office at (800) 345-2519.

AUDITOR OF STATE BULLETIN 99-006  
APRIL 6, 1999

TO: Fiscal Officer of All Subdivisions  
All Independent Public Accountants

SUBJECT: Requests for New Funds

The Auditor of State receives numerous requests to establish new funds under the provisions of Ohio Rev. Code §5705.12 which states:

In addition to the funds provided for by sections 5705.09, 5705.121, 5705.13, and 5705.131 of the Revised Code, the taxing authority of a subdivision may establish, with the approval of and in the manner prescribed by the auditor of state, such other funds as are desirable, and may provide by ordinance or resolution that money derived from specified sources other than the general property tax shall be paid directly into such funds. The auditor of state shall consult with the tax commissioner before approving such funds.

The purpose of this Bulletin is to identify when a request under this code section is required and when a local government may create a new fund without the Auditor of State's approval.

#### When Requests are Unnecessary

Approval to establish a new fund is unnecessary when the creation of the desired fund is already authorized or required by statute. Whenever the creation of a fund is authorized or required by statute, either specifically by name, or in general, a separate letter requesting permission to establish the fund is not required.

Examples of specific statutory requirements are found in Ohio Rev. Code §3313.81, which requires that school districts establish food service funds, and in Ohio Rev. Code §5747.50, which requires that each county establish an undivided local government fund. Similar statutory provisions requiring the creation of a specific fund are scattered throughout the Revised Code.

General statutory requirements for the creation of funds are found in Ohio Rev. Code §5705.09. This code section states:

Each subdivision shall establish the following funds:

(A) General fund;

(B) Sinking fund whenever the subdivision has outstanding bonds other than serial bonds;

(C) Bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness;

(D) A special fund for each special levy;

(E) A special bond fund for each bond issue;

(F) A special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose;

(G) A special fund for each public utility operated by a subdivision;

(H) A trust fund for any amount received by a subdivision in trust.

Based on this statute, it is unnecessary to continue to request permission from the Auditor of State to establish a new fund when the purpose of the fund will be to record and expend the proceeds of debt, to account for a new grant whose use is restricted to a particular purpose or to account for money received in trust.

#### When Requests are Necessary

It is necessary to continue to submit requests to the Auditor of State when the creation of the fund is not specifically authorized by statute or when the purpose of the fund is not identified in Ohio Rev. Code §5705.09 (A) - (H). Situations in which it would be appropriate to continue to submit requests include: 1) when management wishes to create a new fund in order to capture additional financial information about a specific source of revenue or a specific activity; 2) when the fund will be used to account for restricted gifts or bequests that will not be held in trust; and 3) when management wants to impose internal restrictions on the use of otherwise unrestricted resources

Management often asks to create a new fund to determine how much revenue a specific source generates or how money from a specific source is being spent. In circumstances where the desired financial information can be obtained by creating additional accounts within an existing fund, the creation of a separate fund is generally considered unnecessary. An exception to this policy is made for requests for the creation of proprietary funds.

Proprietary funds are intended to account for activities that are similar to businesses. The activity is at least partially financed by charges for services or goods. Rates are usually set by the legislative authority, and the desire is to maintain accounting records which can demonstrate the extent that charges cover the costs of providing the goods or services. This is accomplished by tracking all revenues and the related expenses of an activity within a single fund. Requests for the creation of a proprietary fund are usually granted.

Sending a request to establish a new fund is still appropriate when the fund will be used to

Do not classify funds holding restricted gifts as trust funds if the beneficiary is the government. If a trust agreement designates other parties as beneficiaries, then the fund **should** be classified as a trust fund. GASB 1300.108)

account for restricted gifts or bequests not held in trust. ~~The creation of a trust fund is not necessary to account for restricted gifts or donations; this money may be accounted for in a special revenue fund or, if restricted to the acquisition of fixed assets, in a capital projects fund. A trust fund is recommended only when there is a formal trust agreement with the donor.~~ Requests to account for restricted gifts and donations are routinely granted based on the need to demonstrate compliance with donor restrictions.

Letters frequently request permission for a new fund based on management's wish to place internal restrictions on the use of otherwise unrestricted resources. These types of requests are generally not approved. It is the policy of the Auditor of State to refuse requests when approval would result in giving readers of financial statements the false impression that the use of the resources in the fund is restricted. The General Assembly has begun authorizing the creation of funds using unrestricted resources in certain specific circumstances. For example, H.B. 426 allows subdivisions to create funds for the payment of compensated absences and for the acquisition of fixed assets. The Auditor of State does not feel it is appropriate to extend this ability into areas where the legislature has not acted.

When responding to requests to establish new funds, the Auditor of State applies two basic guidelines. Separate funds are justified 1) when they will provide management with additional relevant financial information which is not obtainable using the current fund structure; and 2) when necessary to demonstrate compliance with legal or contractual restrictions.

When the purpose of a fund created under the provisions of Ohio Rev. Code §5705.12 has been fulfilled, the unexpended balance may be transferred to the general fund or to the bond retirement fund, but only after the payment of all obligations incurred and payable from the fund. (See Ohio Rev. Code §5705.14) Management may not simply modify or alter the purpose of the fund; that, in effect, creates a new fund and would require a second approval from the Auditor of State.

To request the creation of a new fund, complete the attached form. Send the form and a copy of the resolution or ordinance of the legislative authority authorizing the fund to:

~~Auditor of State's Office  
Local Government Services Division  
88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140~~

[http://  
www.ohioauditor.gov/  
resources/  
AOSNotificatons.html](http://www.ohioauditor.gov/resources/AOSNotificatons.html)

The request can be deemed approved if you do not receive a letter disapproving the request from the Auditor of State's local government services division within 30 days from the date of submission.

Questions concerning this bulletin should be addressed to the Local Government Services Division of the State Auditors Office at ~~(800) 345-2519~~.

[http://www.ohioauditor.gov/  
contact.html](http://www.ohioauditor.gov/contact.html)

AUDITOR OF STATE  
REQUEST FOR FUND APPROVAL

Replaced with the form available at:  
[http://www.ohioauditor.gov/resources/  
AOSNotificatons.html](http://www.ohioauditor.gov/resources/AOSNotificatons.html)

Entity: \_\_\_\_\_

Fiscal Officer: \_\_\_\_\_

Phone No.: \_\_\_\_\_

Request Date: \_\_\_\_\_

Fund Requested: \_\_\_\_\_

Purpose of Fund: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Sources of Revenues: \_\_\_\_\_  
\_\_\_\_\_

Anticipated Expenditures: \_\_\_\_\_  
(Types) \_\_\_\_\_

NOTE: Please attach a copy of the resolution requesting approval to establish the fund.

**AUDITOR OF STATE BULLETIN 99-008**

**May 13, 1999**

TO: ALL TOWNSHIP CLERKS  
ALL TOWNSHIP TRUSTEES  
COUNTY AUDITORS

SUBJECT: TOWNSHIP OFFICERS' COMPENSATION

This bulletin clarifies recent Attorney General Opinion No. 99-015, which defined the term "budget" for the purposes of determining township trustee and clerk compensation.

1999 Op. Att'y Gen. No. 99-015 approved and followed 1992 Op. Att'y Gen. No. 92-003 on the issue of the definition of "budget" for the purposes of Ohio Rev. Code §§ 505.24 and 507.09. Opinion 99-015 stated in Syllabus one that:

"For the purposes of calculating the authorized compensation of the township trustees and the township clerk pursuant to R.C. 505.24 and R.C. 507.09, the term "budget" refers to the total amount of resources available to the township pursuant to the official certificate of estimated resources or amendments to the certificate."

Therefore, when determining what the township's budget is, the amount of the official certificate of estimated resources or any amended certificates should be used. Please note that the date of the certificate, as dated by the County Auditor, is the date that should be used in determining when any increases due to increased budgets are effective. Once the budget amount is determined, the proper pay rate may be found in Ohio Rev. Code § 505.24 for the trustees and § 507.09 for the clerk.

Opinion 99-015 also determined "that special levies of a township are included in the budget." Opinion 99-015 stated in Syllabus two that:

"Special levies of a township are included in the official certificate of estimated resources or amendments to the certificate, and thus in the township budget, for the purposes of calculating the authorized compensation of township trustees and the township clerk pursuant to R.C. 505.24 and R.C. 507.09."

Therefore, special levies of a township should be included in any official certificate of estimated resources, or any amended certificate, and in the budget for purposes of calculating compensation.

If you have any questions about this bulletin, please contact the Legal Division at (800) 282-0370.



**AUDITOR OF STATE BULLETIN 99-015**  
**SEPTEMBER 15, 1999**

TO: ALL COUNTY AUDITORS  
ALL COUNTY TREASURERS  
ALL COUNTY SHERIFFS  
ALL COUNTY CLERKS OF COURTS  
ALL COUNTY RECORDERS  
ALL COUNTY COMMISSIONERS  
ALL COUNTY PROSECUTING ATTORNEYS  
ALL COUNTY ENGINEERS  
ALL COUNTY CORONERS  
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: IN-TERM WAGE INCREASES FOR COUNTY OFFICIALS

The purpose of this bulletin is to inform county authorities of Ohio Attorney General Opinion 99-033. This opinion addressed the issue of in-term salary increases for county officials whose salaries are based upon population-driven compensation schedules contained within the Ohio Revised Code. The Attorney General concluded that when a county's population increases, as measured by the federal decennial census, an in-term county official may lawfully receive the higher salary provided for by the consequent shift in that official's compensation schedule.

The Attorney General was asked to opine on this issue because Ohio law contains certain prohibitions with respect to in-term changes in salary for county officers. Chiefly, Ohio Const. art. II, § 20, provides that the General Assembly "shall fix the term of office and the compensation of all officers; but no change therein shall affect the salary of any officer during his existing term, unless the office be abolished." The operative word interpreted by the Attorney General was "change."

Relying heavily upon *Shultz v. Garrett*, 6 Ohio St. 3d 132, 451 N.E.2d 794 (1983), the Attorney General interpreted "change" to mean changes in salary caused by direct legislative action upon the compensation schedules contained in the Ohio Revised Code that act as the bases for the county officers' salaries. In other words, the Ohio Constitution prohibits the legislature from effecting a change in an in-term officer's salary by changing the underlying statute upon which the officer's salary is based. The Constitution does not perfunctorily prohibit a change in the salary of an in-term county officer. As long as the statute containing the compensation schedule was in effect prior to the commencement of an officer's term of office and the statute provides for a change in salary commensurate with a change in population, a county officer may receive an in-term increase in salary.

In the case of a county auditor, county treasurer, county sheriff, common pleas court clerk, county recorder, county commissioner, county prosecuting attorney, county engineer, or county coroner, their respective salaries are set forth in the compensation schedules contained in Ohio Revised Code Chapter 325. A particular officer's salary is determined by selecting the

appropriate compensation schedule which is based on the county's population. Generally, the greater the county's population, the greater the officers' salaries will be. Although there is no constitutional prohibition against an in-term salary increase for these officers when the county's population grows, there does exist a statutory bar in Ohio Revised Code § 325.22 that prohibits reducing their salaries in-term when the population of the county decreases.

The Attorney General also addressed the attendant issue of the proper index of population data to be used in determining the correct compensation schedules at which to set county officers' salaries. The Attorney General concluded that the only index of population recognized by the Ohio Revised Code is the federal decennial census. The Ohio Revised Code defines "population" to mean that enumeration of persons as shown by the most recent regular federal census. In examining federal censuses, the Attorney General found four types: a decennial census, a mid-decade census, a special census, and a compilation of current population data. The opinion ruled out current compilations of data because they are based on estimations and not on hard enumerations. Special censuses were also discounted because they are discretionary and therefore not "regular" in nature. Even though a mid-decade census was found to fall within the definition of a regular federal census, the Attorney General discovered that as a practical matter, no mid-decade census had ever been conducted. That left the federal decennial census as the appropriate population index to use within the compensation schedules.

Therefore, according to the Attorney General's opinion, those counties that experience an increase in population may lawfully adjust the salaries of those in-term officers whose salaries will be increased by a change in their compensation schedules. Where the federal decennial census indicates a decrease in county population, however, there should be no consequent decrease in an in-term officer's compensation.

If you have any questions about this bulletin, please contact the Legal Division at 1-800-282-0370 or (614) 752-8683.

**AUDITOR OF STATE BULLETIN 99-019**  
**NOVEMBER 23, 1999**

TO: ALL SCHOOL DISTRICT TREASURERS  
ALL SCHOOL DISTRICT SUPERINTENDENTS  
ALL SCHOOL BOARD PRESIDENTS  
ALL VOCATIONAL SCHOOL DISTRICT TREASURERS  
ALL VOCATIONAL SCHOOL DISTRICT SUPERINTENDENTS  
ALL VOCATIONAL SCHOOL BOARD PRESIDENTS  
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: PETTY CASH ACCOUNTS  
H.B. 220 (Eff. 11/2/99)

This bulletin informs school district treasurers, superintendents and boards of education of the recently enacted Sub. House Bill 220 and Ohio Rev. Code § 3313.291, which provide for the establishment of petty cash accounts by the board of education.

Prior to the enactment of Sub. H.B. 220 and Ohio Rev. Code § 3313.291, the Guidelines for Developing Policies for Student Activity Programs set forth a system of rules regarding petty cash accounts. The previous system permitted school board petty cash accounts only for small expenditures falling within established dollar amounts. In accordance with this system, all dollar amounts, locations and limitation of disbursements needed to be specifically addressed and all disbursements made by check required at least the signature of the treasurer.

Furthermore, the Guidelines for Developing Policies for Student Activity Programs advised school boards not to pay athletic official fees from the petty cash account. This advice stemmed from Ohio Rev. Code § 3313.51 which requires all school district moneys to be paid on a check signed by the treasurer. While Ohio Rev. Code § 3313.51 continues to impose restrictions on school district moneys, Sub. H.B. 220 and Ohio Rev. Code § 3313.291 expand school boards' authority regarding petty cash accounts.

Under the newly enacted Sub. H.B. 220 and Ohio Rev. Code § 3313.291, the board of education of a school district may adopt a resolution establishing a petty cash account from which a designated district official may draw moneys by check signed by that official or by debit card for purchases made within the district. The Revised Code requires that the resolution establishing the petty cash account:

- specify the maximum amount of money placed in the account;
- designate district officials who may draw moneys from the account or require the treasurer to designate such officials; AND
- specify the requirements and procedures for replenishing the account.

While Sub H.B. 220 and Ohio Rev. Code § 3313.291 appear to mirror the previous policy, the newly enacted law broadens school boards' authority and no longer prohibits school boards from paying athletic official fees from the petty cash account.

If you have any questions about this bulletin, please contact the Auditor of the State's Legal Division at (614) 752-8683 or (800) 282-0370.