

Mary Taylor, CPA Auditor of State

Bulletin 2008-001

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TO: All Fiscal Officers
Independent Public Accountants

FROM: Mary Taylor, CPA
Ohio Auditor of State

SUBJECT: AOS Position on Annual Filing Requirements and Extensions

Overview

Ohio law (Ohio Rev. Code § 117.38) requires that local public offices file their annual financial reports with the Auditor of State's Office (AOS). Further, the Ohio Administrative Code (OAC 117-2-03 (B)) requires that all counties, cities and school districts, including educational service centers and community schools, prepare their financial reports pursuant to generally accepted accounting principles (GAAP). These GAAP-mandated entities have 150 days following the end of their fiscal year to submit their financial reports to the AOS, while cash-basis entities have 60 days following the end of their fiscal year to submit their financial reports to the AOS. Ohio Rev. Code § 117.38 also requires the AOS to levy a penalty of \$25 per day (\$750 maximum) for those entities that file late or fail to file. The statute further enables the AOS to grant extensions to the filing deadline and to waive penalties upon receipt of the report.

Additionally, Ohio Rev. Code § 117.41 enables the AOS or contracted Independent Public Accounting (IPA) firm hired to perform the audit to declare a public office to be "unauditable" (i.e., unable to be audited) when its accounts, records, files, or reports have been improperly maintained and, as such, are insufficient to allow the audit to be performed. If the AOS determines that the records are insufficient, the AOS sends a letter to the public office that formally declares it to be unauditabile.¹ If the public office fails to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days after being declared unauditabile, the AOS shall request the Attorney General's Office to commence legal action pursuant to Ohio Rev. Code § 117.42 to compel the public office to bring its accounts, records, files, or reports into an auditable condition.

¹ In practice, when an IPA firm has been contracted to complete an audit and believes the public office should be declared unauditabile, the firm informs the AOS of the situation. Once notified, the AOS evaluates the condition of the records and makes the determination whether the public office is auditable.

The purpose of this Bulletin is to reassert the AOS's position on filing requirements, extensions and unauditable declarations when entities fail to submit timely and complete financial reports. This Bulletin amplifies and updates guidance from previously issued bulletins on filing requirements (Bulletin 2001-012), extension requests and unauditable declarations (Bulletin 97-015), and incomplete filings (Bulletin 2006-02).

Impact of GASB 34

In the past as governments converted to the GASB 34 reporting format, the AOS has generally granted extensions and waived penalties for circumstances outside those identified in AOS Bulletin 97-015 (e.g., major flood or natural disaster). However, when a public office fails to file its financial report within the required timeframe, the audit is subsequently delayed which lessens the usefulness and relevance of the public office's audited financial report. Therefore, the AOS has decided to return to guidelines expressed in previously issued bulletins.

New Process

The AOS has made it a goal to expedite the release of audit reports so as to make available timely, relevant, and useful audited financial information. To meet this goal, it is critical that public offices file complete financial reports within their statutorily required timeframes per Ohio Rev. Code § 117.38.

- To be considered a complete filing per generally accepted accounting principles (GAAP), public offices must submit the basic financial statements, including the government-wide financial statements, the fund financial statements and the notes to the basic financial statements, Management's Discussion & Analysis (MD&A), and any other required supplementary information.

Public offices not subject to GAAP reporting requirements may choose to file financial statements per an other comprehensive basis of accounting (e.g., GASB 34 look-alike basis), or they may file regulatory financial statements annually.

- To be considered a complete filing for GASB 34 look-alike statements, entities must submit the government-wide financial statements and the fund financial statements. Entities are encouraged to submit the notes to the basic financial statements and MD&A, but these items are not required. The AOS will continue to assist with the preparation of the MD&A and notes during the audit. Entities that are able to provide the MD&A and notes themselves will be able to save on audit costs. Examples of notes and MD&A for GASB 34 look-alike statements are available at www.auditor.state.oh.us, under Local Government Resources.

To be considered complete on the regulatory basis, the report must contain the data prescribed in the annual report form provided by the AOS. (Except: Users of the Uniform Accounting Network (UAN) shall file their annual financial report in accordance with the guidelines established by the UAN.)

- If no form is provided, the entity should file an annual report using the same format used by that office to summarize and report its annual financial activities to the governing body/legislative authority.²

The AOS Audit Division will certainly be willing to assist public offices in the preparation of the notes to the financial statements (and the Management's Discussion & Analysis for those preparing GASB 34 look-alike statements). To the extent that entities are able to prepare these themselves, audit costs can be reduced.

When a public office fails to file an appropriate annual financial report within the defined timeframe, the AOS will notify the public office by letter. If, after 30 days, the public office still has not satisfied the filing requirement, the AOS will arrange to visit the entity and evaluate the condition of its financial records. If the public office's records are considered to be unauditible, the public office will be declared unauditible and notified of the declaration by letter. If the public office fails to make reasonable efforts and continuing progress to bring its records into an auditible condition within 90 days after being declared unauditible, the AOS will request that the Attorney General's Office commence legal action pursuant to Ohio Rev. Code § 117.42 to compel the public office to bring its accounts, records, files, or reports into an auditible condition. Once a public office has been declared unauditible, it will remain classified as unauditible until the audit is released. A list of unauditible clients is available on the AOS website.

Effective Date

This process becomes effective with the filing of financial statements for the period ended December 31, 2007 and forward.

Extensions

The AOS recognizes that occasionally circumstances may arise that justify granting an extension of the annual report filing deadline. However, the AOS will generally only consider granting an extension to a public office once every two years except under extraordinary circumstances as defined below.

AOS's policies and procedures for granting extensions are intended to address the occasional situation when an extension is appropriate and necessary, while encouraging the maximum level of compliance with the filing requirements. Therefore, as originally set forth in AOS Bulletin 97-015, the AOS will consider granting extensions when the following circumstances exist or have occurred:

- 1) The public office is located in an area where a major flood or natural disaster has recently occurred.
- 2) Records are destroyed through fire or casualty.

² See AOS Bulletin 2001-012 for a list of entities for which the AOS prescribes an annual report.

- 3) Records are not updated due to recent death or disability of the person responsible for preparing the financial report.
- 4) Newly elected or appointed public official requests extension due to poor maintenance of financial records by predecessor official.

The request for extension should be submitted to the AOS no later than the public office's deadline for filing its financial report. The request should state the reason for the request and give the date that the annual financial report can reasonably be filed. The request should be signed by the Chief Fiscal Officer and a representative of the public office's governing board. The AOS will not grant extensions beyond two months. The request should be addressed to the following:

Auditor of State of Ohio
Attn: Local Government Services
88 East Broad Street – 6th Floor
P.O. Box 1140
Columbus, OH 43216-1140

Questions and Comments

If you have any questions regarding this Bulletin or the financial reporting requirements, please contact the AOS Local Government Services Section at (800) 282-0370.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State