

Mary Taylor, CPA Auditor of State

Bulletin 2009-012

Date Issued: November 24, 2009

TO: Agricultural Societies
County Boards of Health
Cemeteries
Conservancy Districts
Family & Children First Councils
Fire & Ambulance Districts
Libraries
Park/Recreation Districts
Regional Planning Commissions
Solid Waste Districts
Townships
Villages
Water and Sewer Districts
Independent Public Accountants

FROM: Mary Taylor, CPA
Ohio Auditor of State

SUBJECT: New AOS Policy: Agreed-Upon Procedures for Small Government
Audit Clients

The purpose of this bulletin is to inform you that beginning with audit periods ending December 31, 2009, the Auditor of State will begin implementing agreed-upon procedures for smaller governments that meet certain criteria and that historically have had clean audits. We believe that within the parameters described below, agreed-upon procedures can reduce audit costs for these governments while continuing to provide accountability for the public moneys they receive and expend.

Under the revised policy, governments that meet the criteria in the attached checklist may be eligible for agreed-upon procedures over receipts and disbursements of public funds and legal compliance. Eligibility will be determined by the Regional Chief Auditor. The agreed-upon procedures will be performed under the American Institute of Certified Public Accountants' attestation standards and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*.

Under the new policy, a government may not go more than two audit cycles¹ without having a financial statement audit performed in accordance with auditing standards. In other words, if a government meets the criteria for agreed-upon procedures for two consecutive audit cycles, the third cycle would require a financial statement audit. Then, assuming the government continued to meet the criteria, it could return to agreed-upon procedures in the subsequent cycle.

It is possible that agreed-upon procedures may not meet the needs of each government. An individual government that otherwise meets the eligibility criteria may determine that a financial statement audit is more beneficial to its citizens, or it may have a grant, bylaws, or other agreement that require a financial statement audit. It is the responsibility of each government to examine its agreements and determine if a financial statement audit is required. The government should notify its regional office of the Auditor of State if a financial statement audit is needed or desired and does not want to be considered for agreed-upon-procedures.

All local governments should continue to file their annual financial statements with the Auditor of State's Local Government Services section, as required by law and described in AOS Bulletin 2008-001. Moreover, for any eligible government already contracted with an Independent Public Accountant (IPA), the Auditor of State, IPA, and management should work together to revise the contract and Memorandum of Agreement to reflect performing agreed-upon procedures.

If you have any questions regarding this Bulletin, please contact the AOS Accounting and Auditing Support Group 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

¹ Please note that certain audit clients, such as county political parties and convention and visitor bureaus, are already subject to agreed-upon procedures for each audit cycle, which is unaffected by the policy described in this bulletin.

Eligibility Checklist for Agreed-Upon Procedures
(Pursuant to Audit Bulletin 2009-012)

Audit Bulletin 2009-012 provides that certain public offices meeting specific criteria may choose to have agreed-upon procedures performed, as an alternative to an audit conducted in accordance with standards. This form is to be used to assess the eligibility of a client based on the criteria established by the Auditor of State, although the final determination of eligibility is to be made by the Chief of the AOS Region in which the public office is located, subject to the approval of the AOS Accounting & Auditing Support Group.

Client Name: _____

County: _____

Audit Period(s): _____

Audit Region: _____

Assessment Performed By: _____

Date: _____

1. Eligible Client Type – Please see the attached list of AOS client types. Is this client one of the client types that is potentially eligible for agreed-upon procedures?

Yes → Go to question 2.

No → The client is not eligible for agreed-upon procedures.

2. Cyclical Audit Requirements – Has the client had a financial audit performed within the prior two audit cycles?

Yes → Go to question 3.

No → The client is not eligible for agreed-upon procedures.

3. Stability of Fiscal Officer – Did the client experience turnover in its fiscal officer position during the audit period in question?

Yes → The client is not eligible for agreed-upon procedures.

No → Go to question 4.

4. Accounting Basis – Are the client’s financial statements prepared on either a cash or modified cash basis? (The AOS Regulatory or OCBOA presentation is acceptable.)

Yes → Go to question 5.

No → The client is not eligible for agreed-upon procedures.

5. Higher Risks Noted in Prior Audit – In its most recent financial audit, did the client experience any of the following disqualifying factors:

Qualified opinion → The client is not eligible for agreed-upon procedures.

Declared unauditabile → The client is not eligible for agreed-upon procedures.

Findings for adjustment → The client is not eligible for agreed-upon procedures.

Findings for recovery that indicate fraud or theft in office → The client is not eligible for agreed-upon procedures.

Findings related to material control weaknesses → The client is not eligible for agreed-upon procedures.

Failure to demonstrate a minimal level of compliance with budgetary law → The client is not eligible for agreed-upon procedures.

Note: This assessment requires professional judgment, but contributing factors to a lack of compliance with budgetary law would include the following:

- Failure to adopt or establish appropriations.
- Reported negative unencumbered cash balances in multiple funds.
- Material expenditures exceeding appropriations in multiple funds.

None of the above → Go to question 6.

6. Other Factors Increasing Risk – Do any of the following apply to the client:

Under investigation by SIU or otherwise at high risk of fraud → The client is not eligible for agreed-upon procedures.

Fiscal emergency → The client is not eligible for agreed-upon procedures.

Outstanding audit fees in excess of 120 days → The client is not eligible for agreed-upon procedures.

None of the above → Go to question 7.

7. Size of Budget – Do the client’s annual budgeted expenditures exceed \$1 million?

Yes → The client is not eligible for agreed-upon procedures.

No → Go to question 8.

8. Other Audit Requirements – Is the client required to have an audit under the Single Audit Act, or provisions of any other law or grant, bylaws, or debt covenant, etc.?

Yes → The client **is not** eligible for agreed-upon procedures.

No → The client **is** eligible for agreed-upon procedures.

Note to AOS Regional Chiefs: Although this form is to be used to assess a government’s eligibility for agreed-upon procedures, the Auditor of State does retain discretion over eligibility if the Regional Chief determines that a specific client meets the spirit of the policy, despite a failure to meet all criteria. In such a case, should you determine that agreed-upon procedures would provide the same level of accountability as if the client had met all of the eligibility criteria, you may request a waiver authorizing the agreed-upon procedures. If you wish to request such a waiver, for the above-referenced client, please briefly describe your reasons below, *specifically addressing any and all eligibility criteria that the client does not meet*, and submit this form to the Accounting & Auditing Support Group for approval.

Waiver Requested by AOS Regional Chief

Date

Waiver Approved

Waiver Denied

Signature of A&A Representative

Date

AOS Client Entity Types

Potentially Eligible Clients
• Agricultural Societies
• County Boards of Health
• Cemeteries
• Conservancy Districts
• Family & Children First Councils
• Fire & Ambulance Districts
• Libraries
• Others (Eligibility determined on a case by case basis)
• Park / Recreation Districts
• Regional Planning Commissions
• Solid Waste Districts
• Townships
• Villages
• Water and Sewer Districts