2017 COMBINED IPA CONFERENCE

Aug. 18, 2017

Hilton Columbus at Easton
3900 Chagrin Dr.
Columbus, OH 43219
2017 Combined IPA Conference Agenda

FRIDAY, AUG. 18, 2017

Registration
7:30-8 a.m.

Yellow Book - Current Issues & Plans for the Future

Session Time: 8-9 a.m.
Presenter(s): Melisa Galasso, Galasso Learning Solutions LLC
Description: Government Auditing Standards, frequently referred to as Yellow Book, are layered on to the AICPA auditing requirements when performing an audit of most governmental entities. As these are additional requirements, auditors need to pay particular attention to where there are differences. We'll discuss common deficiencies related to the current Yellow Book (2011). Then we'll switch gears and discuss the recent proposal to update Yellow Book and discuss some of the more significant changes.

Session objective:
• Describe common deficiencies in the area of Yellow Book compliance
• List significant changes proposed to the Yellow Book
Level: Beginner
Field of Study: Auditing (Governmental)

Federal Update/ODOT

Session Time: 9-10 a.m.
Presenter(s): Kelly Berger-Davis, Ohio Auditor of State
Description: This session will cover common questions we receive about the Uniform Guidance. We will also discuss clarification recently received on federal loans. A very important topic also covered in this session is how to audit CFDA #20.205 ODOT programs on the Federal Schedule.

Session objective:
• Clarification on federal loans vs. grants
• Reminders/clarification on common Uniform Guidance questions
• How to audit 20.205 on the SEFA
Level: Intermediate
Field of Study: N/A

Break
10-10:15 a.m.
Cybersecurity

Session Time: 10:15-11:15 a.m.
Presenter(s): Nicole Beckwith, Ohio Auditor of State
Description: More than ever, cybertheives are targeting Ohio’s local governments and tax dollars with great sophistication.

Session objective:
- Different types of cyberattacks
- Why governments are targeted
- How to minimize your risk
- Ways to spot digital threats
- What to do if you’re attacked
- How bitcoin works

Level: N/A

Legal & Legislative

Session Time: 11:15-11:55 a.m.
Presenter(s): Mark Altier and Shawn Busken, Ohio Auditor of State
Description: This session will detail important legislative developments relative to charter schools with the recently passed FY '18 '19 budget bill (HB 49) and other proposed legislation dealing with charter schools.

Session objective:
- Understand new laws pertaining to charter schools to encourage greater compliance
- Understand policy reasons for various legislative changes
- Learn about new policy proposals relative to charter schools

Level: N/A

Lunch
11:55-12:55 p.m.

GASB 68

Session Time: 12:55-1:45 p.m.
Presenter(s): Eric Kline, Ohio Auditor of State
Description: While we made it through the implementation of the new pension reporting requirements, we learned that the second year posed additional complexities. This session will discuss some of the most common errors identified during the second year as well as additional complexities when allocating amounts to proprietary funds.

Session objective:
- Learn about the most common errors identified in reporting for pensions in accordance with GASB 68
- Learn about additional complexities involved when employers allocate pension amounts to proprietary funds
- Learn about suggested audit procedures beyond recalculating the amounts reflected in the financial statements

Level: Intermediate
Field of Study: Accounting and Auditing
Break
1:45-2 p.m.

EMIS Overview - From an auditor's perspective
Session Time: 2-3 p.m.
Presenter(s): Roger Holbrook, Ohio Department of Education
Description: Not available at this time.
Session objective: N/A
Level: N/A

Was it fraud? If so, who did it?
Session Time: 3-4:40 p.m.
Presenter(s): David Cotton, Cotton & Company LLP
Description: Fraud is characterized by deceit, deception, concealment, trickery, lies, cover-up, and of- ten collusion. Should auditors really be expected to find fraud? Two powerful forensic tools can be used in finding fraud: fraud brainstorming and expanded fraud inquiries. This session will focus on the best ways to employ these two tools and discuss the skills needed to apply them effectively. The session will conclude with an in-depth case study exercise designed to give participants hands-on experience in applying both tools. Was a seemingly very successful not-for-profit organization the victim of one or more fraud perpetrators? If so, who did it, and how?
Session objective:
• Attendees will learn and practice the basics of fraud brainstorming
• Attendees will learn and practice the basics of conducting fraud inquiry interviews
• Attendees will participate in a case study exercise designed to identify a fraud perpetrator
Level: Intermediate
Field of Study: Auditing and accounting

Adjourn
4:40 p.m.
Meet the Speaker

Melisa F. Galasso, CPA
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Owner

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Yellow Book Overview
What is Yellow Book?

• Issued by the United States Government Accountability Office, Comptroller General of the United States

• Various Names
  – Governmental Auditing Standards (GAS)
  – Generally Accepted Government Auditing Standards (GAGAS)
  – Yellow Book

What’s In Yellow Book?

• Ethics
• Independence
• Auditors’ professional judgment and competence
• Quality control
• Performance of the audit
• Reporting

When do I have to follow Yellow Book?

• Typically Audits of
  – Governmental Entities
  – Not For Profit Entities
• Single Audits (Uniform Grant Guidance)
• Required by certain laws or other regulations
What makes it different?

- It’s an additional layer
  - GAAS
  - GAGAS

Major Differences

- Requires reporting on ICFR
- Requires reporting on compliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the FS

Common Confusion

- UGG verses YB
Reporting on ICFR

Yellow Book
- In a written report on internal control over financial reporting
- Every FS YB audit

AU-C Section 265
- In a written communication to management and those charged with governance
- Only when significant deficiencies or material weaknesses are identified

Reporting on Compliance

- Compliance
  - When performing a Yellow Book audit, the auditor is required to obtain an understanding of the provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements.

- Add on to AU-C 250 which addresses laws and regulations

Abuse

- Considerations of abuse
  - Not required to detect abuse in financial audits
  - If we become aware of abuse that could be material to the FS

- Can impact ICFR findings

- UGG added abuse as a required finding
Impact on the Audit - Deliverables

• All deliverables are effected by Yellow Book Standards
  – Engagement letter – be sure to select the “GAS” letter
  • We have to spell out any nonaudit services
  – Communication with those charged with governance at planning
  – Opinions
    • Reference the YB standards and YB report
    • Issuance of separate YB report
  – Communication with those charged with governance at the conclusion of the audit

Five General Standards of Yellow Book

• Independence
• Professional Judgment
• Competence
• Quality Control
• Assurance

Quality Control and Assurance

• Audit firms that perform Yellow Book audits must establish and maintain a system of QC
• Have an external peer review performed by reviewers
Yellow Book Independence

Common Confusion

- AICPA Code of Professional Conduct added threats and safeguards approach
- Does NOT perfectly align with Yellow Book

Independence

- Four interrelated sections:
  - a conceptual framework for making independence determinations
  - requirements for and guidance for audit organizations that are structurally located within the entities they audit;
  - requirements for and guidance for auditors performing nonaudit services; and
  - requirements for and guidance on documentation necessary to support adequate consideration of auditor independence.
Conceptual Framework

- Framework that auditors use to
  - identify,
  - evaluate, and
  - apply safeguards
  to address threats to independence.

Threats

- Threats to independence are circumstances that could impair independence.

- Whether independence is impaired depends on
  - the nature of the threat
  - the significance of the threat
  - the specific safeguards applied

Threats

- Self-interest threat
- Self-review threat
- Bias threat
- Familiarity threat
- Undue influence threat
- Management participation threat
- Structural threat
Safeguards

- Controls designed to eliminate or reduce to an acceptable level threats to independence
- Multiple safeguards may be necessary to address a threat

Possible Safeguards

- Consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor
- Involving another audit organization to perform or reperform part of the audit
- Having a professional staff member who was not a member of the audit team review the work performed
- Removing an individual from an audit team when that individual’s financial or other interests or relationships pose a threat to independence

Identifying Threats

- Facts and circumstances that create threats to independence can result from events such as
  - the start of a new audit;
  - assignment of new staff to an ongoing audit; and
  - acceptance of a nonaudit service at an audited entity.
Nonaudit Services

• Providing such nonaudit services may create threats to an auditor’s independence.

• Must consider individually and in the aggregate

SKE

• A critical component of this determination is consideration of management’s ability to effectively oversee the nonaudit service

• The audited entity must designate an individual who possesses suitable skill, knowledge, or experience, and the individual understands the services to be performed sufficiently to oversee them.

  – Must document this consideration

Management Participation

• No safeguards can reduce to an acceptable level.

• Management responsibilities involve leading and directing an entity, including

  – making decisions regarding the acquisition, deployment and control of human, financial, physical, and intangible resources.
**Management Responsibilities**

- Setting policies and strategic direction for the audited entity
- Having custody of an audited entity's assets
- Reporting to those charged with governance on behalf of management;
- Deciding which of the auditor's or outside third party's recommendations to implement
- Accepting responsibility for the management of an audited entity's project
- Accepting responsibility for designing, implementing, or maintaining internal control
- Providing services that are intended to be used as management's primary basis for making decisions that are significant to the subject matter of the audit

**Nonaudit Services**

- Obtain assurance that management performs the following functions in connection with the nonaudit services:
  - Assumes all management responsibilities
  - Oversees the services, by designating an individual who possess suitable skill, knowledge, or experience
  - Evaluates the adequacy and results of the services
  - Accepts responsibility for the results of the services

**Engagement Letter**

- Objectives of the nonaudit service;
- Services to be performed;
- Audited entity's acceptance of its responsibilities;
- Auditor's responsibilities; and
- Any limitations of the nonaudit service.
Routine (Not Nonaudit)

- Routine activities directly related to an audit include:
  - providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit;
  - providing advice to the audited entity on routine business matters
  - educating the audited entity on matters within the technical expertise of the auditors
  - providing information to the audited entity that is readily available to the auditor

Documentation of Independence

- Document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence
- Document consideration of audited entity management’s ability to effectively oversee a nonaudit service
- Document the auditor’s understanding with an audited entity for which the auditor will perform a nonaudit service

Yellow Book CPE
Yellow Book CPE Guidance

- Chapter 3 of the Yellow Book

Competence

- Staff assigned to perform the audit must collectively possess adequate professional competence needed to perform a Yellow Book audit
  - Competence is a blend of education and experience

Education

- Every 2 years, at least 24 hours of CPE that directly relates to government auditing or environment of client
- Additional 56 hours to enhance ability to perform attestation / audits in general
- Total – 80 hours of Yellow Book CPE every 2 years
  - Minimum of 20 in any given year
The 2017 Proposal

Yellow Book Exposure Draft

- Issued April 2017
  - Comments Due July 6, 2017
- Overview
  - Updated internal control requirements and guidance
  - Revised peer review requirements
  - New requirements for reporting waste

Major Items to Consider

- Revised format - differentiates requirements and application guidance
- Integrated audit is added to the types of financial audits
- Definitions of common terms are expanded.
  - Added definitions for engaging party, audited entity, responsible party, and specialist
Major Items to Consider

- The independence requirements of the auditor when the engaging party differs from the responsible party are further explained.
- Any services performed by auditors related to preparing accounting records & financial statements create significant threats to auditors’ independence.
  - Other than those that are specifically not permitted.

Major Items to Consider

- New 4-hour requirement in GAGAS topics, to be required each time a new version of GAGAS is issued.

What Questions Do You Have?
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www.galassolearningsolutions.com
A-87 / A-102 or Uniform Guidance

Cost Principles/Administrative Guidelines the date to look for is when the FEDERAL awarding agency signed the award.

- Anything signed after 12/26/2014 is Uniform Guidance
- For multi-year grants—it is important to review if there has been any incremental funding. If not, the original date still needs to be used.

A133 or Uniform Guidance

Uniform Guidance Audit Requirements are effective for all audits with fiscal years beginning after 12/26/2014

What Do I Do Now?

- If predominant amt. of expenditures for a major program are pre-UG – use non-UG FACCR / OMB CS 3.1
- And include the UG FACCR sections, or requirements from UG FACCR, to clearly identify testing for UG items selected.

- If predominant amt. of expenditures for a major program are UG – use UG FACCR / OMB CS 3.2
- And include the non-UG FACCR sections, or requirements from non-UG FACCR, to clearly identify testing for pre-UG items selected.

- Select samples/items from entire population (UG & pre-UG)
SEFA Requirements

Face of the SEFA must include all federal awards expended including:

- Noncash Assistance
- Loan programs (beginning balance of outstanding loans plus loans disbursed during period plus interest subsidy, cash, or administrative cost allowances)
- Loan guarantee programs
- Amounts passed through to subrecipients for each program

Footnotes to the SEFA must include:

- Significant accounting policies
- Year-end loan balances
- Whether or not entity used the 10% de minimis indirect cost rate

Written Policies/Procedures Required Under Admin. Req’s & Cost Princ’s

- Cash Management 200.302 & 200.305
- Determining Allowable Costs Under Subpart E & the terms & conditions of the federal award 200.302
- Evaluation & Selection of Procurement by Competitive Proposals If procure by competitive proposal 200.318, 319 & 320
- Conflict of Interest For employees engaged in the selection, award & administration of contracts 200.318(c)(1)
Written Policies/Procedures Required Under Admin. Req’s & Cost Princ’s

- Relocation Costs of Employees: 200,464
- Time & Effort: 200,430
- Travel Costs: Regular travel policy plus IF the entity chooses to have a family friendly travel policy: 200,474

Written Procedures

Frequently Asked Questions
- Is each grant/dept. required to have separate policies?
- Do these policies have to be approved by the governing authority?

Written Policies

What if the entity does not have written policies?

1. If entity has an effective process, but no formal procedures:
   Lack of formal policy needs to be brought to the attention of management.

2. No / ineffective process or procedure:
   There would be a control failure (either SD or MW) and material noncompliance.
Client must implement the procurement standards 3 full fiscal years after the effective date of the UG.

A 12/31 year-end client has to implement procurement standards for its fiscal year beginning 1/1/18 (i.e., its 12/31/18 fiscal year-end).

A 6/30 year-end client has to implement the UG procurement standards for its fiscal year beginning 7/1/18 (i.e., its 6/30/19 fiscal year-end).

Entities are required to document whether they are in compliance with the old or new procurement standards.

Most clients have NOT adopted the new procurement policies.

If this is the case, you would need to make sure to add in the old procurement procedures and test accordingly.
Yes. It is irrelevant whether the expenditures were incurred under only one program within the cluster of programs. In this situation, the name of the cluster of programs is to be provided on the SEFA.

2 CFR 200.510 (b)(4) requires the amounts provided to subrecipients to be reported.

This now must be shown on the FACE of the SEFA (not in a footnote).

What if the entity does not have any subrecipients? Do they still have to present this column?
Now required to include GAGAS findings

If a finding has not been fully corrected, the schedule also must include the reason for reissuance.

Summary of Prior Audit Findings

What if there is a prior year single audit finding that is NOT tested as a major program in the current year?

Have to perform reasonable procedures to determine if the entity corrected that finding.

If procedures reflect the finding is uncorrected, determine if auditee properly reported the status of the finding in the PY Schedule of Audit Findings.

If the entity has incorrectly stated a finding was corrected, evaluate if a citation needs to be made regarding the Schedule of PY audit findings materially misrepresents the status.

Audit Related Citations

Must know if you are citing under A-133/A-87/A-102 or UG

• For audit related citations (ie: SEFA errors) unless you are doing an 12/31/14 or earlier audit, 2 CFR 200.XXX is going to be where you need to start (not A-133).
• Many of the agencies have codified requirements of UG.
• The beginning of each FACCR has information on each agency’s adoption of the UG. Additionally, each compliance section will list which agencies have any adjustments/exceptions relating to that compliance section.
Pass-through grant information is now required.

If there isn't a pass-through ID given by the granting agency you can just select N/A.
You can enter up to 10 pass-through IDs for a single award.
The Federal Audit Clearinghouse has indicated their preference is for the pass-through information on the DCF to mirror what is on the SEFA.

Now have to report on the DCF if financial statements were not prepared in accordance with GAAP.

For regulatory audits— you would select regulatory.
For cash and modified cash— you would select cash basis.

None of these are considered required by state law.

Data Collection Form

Data Collection Form

Exceptions Granted

OMB adopted the UG in 2 CFR Part 200 - http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl

Each Federal Agency adopted the UG in their own section of code.

OMB granted exceptions to certain federal agencies to change parts of the UG in their own section of code— list available at https://cfo.gov/cofar - but as of 12/2014 – see OMB CS Appendix VII.

Appendix II of the OMB CS reflects where each federal agency adopted the UG— then look up each section on www.ecfr.gov.
No More COFAR

However, OMB Memo M-17-26 dated 6/15/17 announced that COFAR is disbanded.

Such responsibilities will be handled by the Chief Financial Officers (CFO) Council.

2017 (draft) OMB CS – App. 7

OMB does not maintain a complete listing of approved agency exceptions to the uniform guidance in 2 CFR part 200.

For programs included in the Supplement, the auditor should review the program supplement and, as necessary, agency regulations adopting implementing the OMB uniform guidance in 2 CFR part 200 to determine if there is any exception related to the compliance requirements that apply to the program.

For programs not included in the Supplement that are audited using Part 2, the auditor should review agency regulations adopting/ implementing 2 CFR part 200 to determine if an exception applies to the program.

Questions about the agency-level rulemakings that adopt/ implement 2 CFR part 200 should be directed to the Federal agency key management liaisons specified in Appendix III to the Supplement.

Federal Agency Codification

APPENDIX II

FEDERAL AGENCY CODIFICATION OF REQUIREMENTS AND GUIDANCE FOR GRANTS AND COOPERATIVE AGREEMENTS

<table>
<thead>
<tr>
<th>Agency/Department</th>
<th>2 CFR part 200</th>
<th>OMB Uniform Guidance</th>
<th>COFAR part 200</th>
<th>Supplemental Statements of Requirements (1 CFR part 161 in the Federal Register)</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>10 GS 710.16</td>
<td>2 CFR 1900.1101</td>
<td>2 CFR 200.1-200.3</td>
<td>2 CFR 200.71-200.72</td>
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</tbody>
</table>

Federal Agency Codification
2 CFR 200.502 discusses the basis for determining federal awards expended.

The loan section defines loans as when the FEDERAL government is at risk for the loans until the debt is paid off.

The key is how the federal monies are given to the state or the local government.

It does not matter if the state then loans the funds to the local government or if the local government issues loans with their award.

Programs that do not meet the definition of a loan should be reported on the SEFA as grants.

Additionally, there would not need to be a note disclosure on the balances of the loans.

- Ohio OCD has requested an optional disclosure for local governments:
  “The current cash balance on "Community’s" local program income account as of "date" is "$XXXXXX".
EPA Grants—report as expenditures in accordance with the requirements of 2 CFR 200.302(a) which will be the date the expenditure occurred.

HUD Grants

For awards that pass through OCD, they should be sending communication to be to locals.

Section 108 Programs

In discussions with HUD, we became aware of Section 108 funding (CFDA 14.248)

This is CDBG funding where local entities receive loans directly from HUD.

We obtained a listing from HUD of the entities in Ohio which have received such funding.

This program SHOULD follow the loan guidance for SEFA disclosure.

• Will need to refer to the terms of the agreement to determine if there are continuing compliance requirements or not.

ODOT
### Types of 20.205 Projects

- **ODOT Administered** (with no LPA match)
- **ODOT Administered** (with LPA match)
- **LPA Administered**
- **Some Phases LPA Administered / Some Phases ODOT Administered**
- **State Infrastructure Bank Loans (SIB Loan) associated with either ODOT or LPA admin. projects**
- **LPA Administered BUT an ODOT Task Order Consultant Used**

### 3 Areas to Consider

1. **Report on SEFA (including on-behalf)**
2. **Report on Financial Statements (on-behalf)**
3. **Capital Asset**

### ODOT Memo’s

**To Clients**

**To Auditors**
**Testing 20.205 on SEFA**

Client documents needed

- Schedule of Expenditures of Federal Awards (SEFA) & SEFA Footnotes
- Client prepared tracking spreadsheet (either using ODOT's template, or other client schedule) – rolls up to SEFA
- Related grant agreements (including SIB loan), ledgers, and support for expenditures
- Client's confirmation e-mail to/from ODOT (discussed later)

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**On-Behalf-Of Transactions for LPA Admin. Projects**

The LPA initiates on-behalf-of payments

- LPAs receive an invoice from 3rd party vendor, approve, and invoice ODOT
- However, this is often done by the Engineer, Mayor, Commissioner, etc., rather than the fiscal officer
- ODOT will not pay a vendor on-behalf-of an LPA without the LPA signing off on the invoice

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**On-Behalf-Of Transactions**

Determining date paid by ODOT

- ODOT has directed LPAs to report such 15 days after requests for payment are made to ODOT (ODOT tells the LPA they are to assume it was paid unless notified otherwise). However……
- Auditors should consider whether sufficient audit evidence is available to support the Occurrence, Accuracy and Cutoff assertions related to the compliance requirements.
- Auditors should review subsequent invoices from same vendor for evidence the invoice was paid. If close to year end, verify the date paid to ensure reported in the correct year.
- If evidence is unavailable to indicate the date paid, and the client has not confirmed payment date with ODOT, auditors should e-mail DOT.LPAQuestions@dot.ohio.gov to verify the date.
Auditors should **NOT** be using the new ODOT CMRS portal!!!

**‘Confirmation’**

**Best practice is for clients to ‘confirm’ with ODOT**

Best practice is for clients to ‘confirm’ SEFA with ODOT, prior to the SEFA being given to auditors to audit.

Clients should send ODOT their tracking spreadsheet, 20.205 portion of the SEFA, and any on-behalf-of transactions needing more info. – DOTLPAQuestions@dot.ohio.gov.

Please remember timing differences for reimbursement payments exist. The LPA should report those expenditures on their SEFA based upon the date the LPA expended the funds, rather than the date ODOT expended the funds.

Projects Using a Task Order Consultant

Occasionally a LPA chooses to utilize an ODOT Task Order Consultant to handle certain phases of a project for them. Such is indicated in their Scope of Services Agreement.

Expenditures related to the Task Order phases do **NOT** get reported on clients’ SEFAs – they will be reported on ODOT’s SEFA.
Summary Table in FACCR

<table>
<thead>
<tr>
<th>Project Administered by</th>
<th>ODOT (no match)</th>
<th>ODOT/LPA match</th>
<th>Both</th>
<th>LPA</th>
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<tbody>
<tr>
<td>Report on SEFA</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>LPA</td>
</tr>
</tbody>
</table>

Unless a Task Order Consultant was used.

Communication of Errors

Fiscal Officer  
Engineer  
Communicate ODOT Errors

A Step in the Right Direction

ODOT is starting to require certain (not all) LPAs do quarterly reporting and confirmations.
Stay Tuned for Guidance

- Capital asset reporting
- Reporting on-behalf activity on financial statements (when not LPA administered)
- State Infrastructure Bank (SIB) loans

Client Discussion Items

- Tracking spreadsheet (or similar document) that provides support for 20.205 amount(s) on SEFA
- ODOT’s 12/5/16 memo to LPAs titled ‘LPA Federal Reporting Requirements’
- LPA’s confirmation e-mail from ODOT - including SEFA amount & any on-behalf’s needing more support for date paid

Miscellaneous Federal Issues
Look Ahead

- 2017 OMB Compliance Supplement – in OMB clearance
- The Elementary and Secondary Education Act (ESEA) has been amended by the Every Student Succeeds Act (ESSA) – this could impact FY 17 schools
- Further UG technical corrections & FAQ's
- 2017 DCF - FAC goal is to launch by 'early August'

Federal Update
2017 IPA Conference

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Table includes all

<table>
<thead>
<tr>
<th>Schedule of Expenditures of Federal Awards (SEFA) Reporting</th>
<th>CDBG, CFDA 14.218</th>
<th>CDBG, CFDA 14.228</th>
<th>HOME, CFDA #14.239 (except CHDO)</th>
<th>HOME, CFDA #14,239 CHDO</th>
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<tr>
<td>Expenditures Reported on SEFA &amp; DCF</td>
<td>Expenditures Not Reported on SEFA &amp; DCF</td>
<td>Expenditures Not Reported on SEFA &amp; DCF</td>
<td>Expenditures Not Reported on SEFA &amp; DCF</td>
<td>Expenditures Not Reported on SEFA &amp; DCF</td>
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<tr>
<td>Project based expenditures</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Initial loans issued from State grant (not expenditures from reloaned amounts from revolving loan program income – see program income expenditures below)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
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<tr>
<td>Grants to subrecipients</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
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<tr>
<td>Repayment of unused program income revolving loan grant funds or unused project grant funds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X (Program grant funds)</td>
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<td>Description</td>
<td>Use</td>
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<td>------------------------------------------------------------------------------</td>
<td>-----</td>
<td>-----</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Use of dormant program income revolving loan grant funds in accordance with waiver granted by OCD</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Program income expenditures (revolving loan grant repayments of principal and interest income)</td>
<td>X</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Cybercrime:
It's not a question of if, but when. Is your data safe?

Presented by:
Nicole Beckwith
Fraud Investigator/Digital Forensic Examiner

- In 2015 Ohio ranked #10 in the nation for cybercrime**
- In 2016 Ohio ranked #9 in the nation for cybercrime***
- The hardest hit age group are those over 60 ***
- In 2016 more than 4.2 billion records were exposed*
- In over 4149 data breaches*
- By 2019 cybercrime is expected to reach $2 TRILLION in loss*

*Verizon 2016 Data Breach Investigations Report
**2015 FBI cybercrime report
***2016 FBI cybercrime report

Threat Overview

Cybercrime in Ohio
Victims of Cybercrime

- Montgomery County, Miami Valley Regional Planning Commission – Ransomware
- Clinton County, Vernon Township – Ransomware
- Morrow County, Peru Township – Ransomware
- Columbiana County, Court System – Ransomware
- Licking County – Ransomware
- Madison County – Agricultural Society – Vishing
- Delaware County – Big Walnut Schools – Phishing
- Athens County – Trimble Local Schools – Phishing
- Many, Many More……

In the News

ATTENTION: All County Computers, Website, and Phone systems are not working. We apologize for any inconvenience.

Agenda

- Threats Overview
- Ransomware
- Social Engineering
  - Vishing
  - Smishing
  - Phishing
- Important Contact Information
Top 5 Hackers

- Who are they?
- Why do they attack the little guys?
- Why governments?

Malware
A blanket term covering any form of intrusive software such as:
- Trojans
- Worms
- Spyware
- Adware
- Bots
- Viruses
- Keyloggers
- Ransomware
Ransomware

- A form of malware that targets your critical data and systems for the purpose of extortion.
- The ransomware encrypts files and requires a key to decrypt them.
- A timeframe is set and specific instructions are given to purchase the key.
Ransomware

- Ransomware
- Active since April 2014.
- The group responsible has reportedly collected over $325 million in the last year alone.

CTB-Locker

- Emerged in June 2014.
- More efficient and harder to detect than others because Tor components are embedded in the malware.
TeslaCrypt
➢ Emerged in February 2015, targeting the video game community by encrypting gaming files.

MSIL or Samas (SAMSAM)
➢ Compromised the networks of healthcare facilities running outdated content management applications.

Locky
➢ Active since early 2016.
➢ Infected computers belonging to businesses in the United States, New Zealand, Australia, Germany and the United Kingdom.
Social Engineering

The Human Element
What is it?
- The art of manipulating people by deception to divulge confidential information that is then used for fraudulent purposes.

How do they do it?
- Researching your family, pets, likes, hobbies, cars, work, relatives and co-workers...
- Talking to you personally, searching online, digging through your trash, emails, etc.

Social Engineering Schemes
- Vishing - Voice
- Smishing – SMS texts
- Phishing - Email
- Spear Phishing - Email

The Human Element

WATCH THIS HACKER BREAK INTO MY CELL PHONE ACCOUNT IN 2 MINUTES
Vishing

- Use of Voice/phone calls to obtain information
- IRS phone scam
- Microsoft Help Desk phone scam
- Google business listings
- Free vacations
- Free security system
- Credit Cards

Smishing

- Use of SMS text messaging to gain information
- Typically includes a link directing you to sign into something
- May appear as a common name or company

DAD STORY 😊

Phishing

- An attempt to obtain sensitive information through email by posing as a trustworthy source.
- Seeking usernames, passwords, credit card details, money, access to computer networks or injecting malware.
- Asks you to click on a link which sends you to fake websites.
This email bypassed my SPAM filters because of the real email address.

What do I look for?

- To whom is it addressed?
- Grammar and spelling
- Deals too good to be true
- Is it somebody you deal with?
- Were you expecting the email?
- Does it include links? (learn to hover!)
Spear Phishing Case Study – local school

The treasurer of a local school went on vacation and while she was gone her assistant treasurer received the following emails...

---

Post: Treasurer
Date: Mon, July 16, 2018 at 5:22 AM
Subject: Payment
To: Asst. Treasurer

Asst. Treasurer

According to angry email we need to make a transfer payment today for books today. Kindly email me to let me know if you are available the process this transfer.

Thanks,

Treasurer

Thu, 19 July 2018 16:41:14 +0100

Asst. Treasurer

Attention to the immediately and make sure the payment goes out today.

Superintendent

---

Post: Treasurer
Date: Thu, May 9, 2019 at 12:19 PM
Subject: Bill
To: Asst. Treasurer

Asst. Treasurer

You have a bill to pay! I've faxed it over here and there is an urgent matter I need you to take care of. We have a pending invoice from our new vendor and I have asked them to send me a copy of the invoice. Hopefully it should arrive later today or tomorrow and will appreciate if you can process a transfer payment before the cut off time. What details do you need to process this to list the vendor on the account today?

Thanks,

Treasurer

---

This e-mail may contain confidential and/or privileged information and is covered by the Electronic Communications Privacy Act 1986, US. RE: Disclosures, and other laws. It contains no confidential or privileged information and is subject to the Electronic Communications Privacy Act, 1986, US and other laws. It contains no confidential or privileged information and is under the Electronic Communications Privacy Act, 1986, US and other laws. It contains no confidential or privileged information and is covered by the Electronic Communications Privacy Act 1986, US. RE: Disclosures, and other laws. It contains no confidential or privileged information and is subject to the Electronic Communications Privacy Act, 1986, US and other laws.
Attachment for malware delivery.

When she hit reply it actually showed the real email address the suspect used.
Yandex
A Russian based Google-type service with email

Google the address or name to see if they even exist.

Wi-Fi Safety
What do I look for?

- Don’t trust
- Ask an employee for the Wi-Fi network name
- Use a VPN – Virtual Private Network
- If you must use Wi-Fi, do not go to secure sites. Save it until later.
- Use your cell phone as a hotspot

Two Factor Authentication

- Secondary: text messages, emails, phone calls, PIN numbers
- https://twofactorauth.org
- Example: Trimble Schools in Athens

Top 25 passwords

1. 123456 10. football 19. master 29. trustno1
3. 12345 12. monkey 21. superman 31. 696969
4. 12345678 13. letmein 22. 123123 32. 696969
5. qwerty 14. abc123 23. 123123
6. 123456789 15. 111111 24. batman
7. 1234 16. mustang 25. trustno1
8. baseball 17. access
9. dragon 18. shadow

- Secondary: text messages, emails, phone calls, PIN numbers
- https://twofactorauth.org
- Example: Trimble Schools in Athens

Top 25 passwords

1. 123456 10. football 19. master 29. trustno1
2. password 11. 1234567 20. michael 30. 696969
3. 12345 12. monkey 21. superman 31. 696969
4. 12345678 13. letmein 22. 123123
5. qwerty 14. abc123
6. 123456789 15. 111111
7. 1234 16. mustang
8. baseball 17. access
9. dragon 18. shadow
Pineapple’s and Pumpkins
Rotten piece’s of fruit!

Wi-Fi - Access
How do hackers find you?
(Wigle.net)
What if I don’t connect to the rogue access point? (Probing Demo)

Bring Your Own Device
- USB’s
- Cell Phones
- Tablets
- Laptops
- Anything requiring connection to your Wi-Fi
- Do you have a policy?
You became a victim - What now?

**United States Secret Service**
Electronic Crimes Task Force:
www.secretservice.gov/investigation/field
- Cleveland ECTF: (216) 780-2088
- Cincinnati ECTF: (513) 684-2888
Local Field Offices: www.secretservice.gov/contact/

**Federal Bureau of Investigation**
Cyber Task Forces:
www.fbi.gov/contact-us/field-offices
- Cleveland Office: (216) 522-1400
- Cincinnati Office: (513) 421-4310

**Mitigation**
Department of Homeland Security United States:
Computer Emergency Readiness Team (US-CERT):
www.us-cert.gov

Make sure you are within federal requirements regarding reporting information breaches: 
https://www.us-cert.gov/incident-notification-guidelines

Download the Incident Reporting Form here: 
https://www.us-cert.gov/report

**Contact Information**
Nicole Beckwith
Fraud Investigator/Digital Forensic Analyst
Cell Phone: (937) 307-4303
E-mail: NBeckwith@ohioauditor.gov

Follow me on Twitter @NicoleBeckwith
for breaking news, tips and tricks.

Fraud Hotline:
1-866-FRAUD-OH
Township Insurance

- **TOWNSHIP INSURANCE FOR OFFICERS/EMPLOYEES**
  - Ohio Revised Code Section 505.60 (Insuring Townships)
  - Hospitalization
  - Surgical care
  - Major medical care
  - Disability
  - Dental care
  - Hearing aids
  - Prescription
  - Sickness

- May purchase long-term care insurance contracts as provided in Rev. Code § 124.841
  - Covering employees/officers and immediate dependents
  - Uniform coverage for full-time employees
  - May cover part-time employees
  - Any officer or employee may refuse

- May contribute to a bargaining unit health and welfare trust fund or

- Self-insurance or joint self-insurance as provided in Rev. Code § 9.833
**Group Life Insurance**
Rev. Code Section 505.602

- Group Life Insurance for Officers & Employees:
  - All or any part of premiums paid by Township
  - May participate in a joint arrangement with other political subdivisions (OAG 2003-026)
  - Lives of officers and employees
  - Not to exceed $50,000 per individual

**Premium Reimbursement**
Rev. Code Section 505.601

**NON-INSURING TOWNSHIP**

- Reimburse for out-of-pocket premiums
  - Officers/employees and immediate dependents

- Township must first adopt a resolution stating:
  - It has chosen not to procure coverage (Any type identified in 505.60)
  - It will provide a uniform monthly or yearly payment amount to cover employees and their immediate dependents

**Cafeteria Plan**


- Separate written plan maintained by employer for employees provided in Section 125 of IRS Code
- Choice between taxable and non-taxable
- Does not defer compensation
- Excludable from employee's gross income
- No filing requirement unless welfare benefit plan
125 Permissible Benefits

- Permissible Benefits
  - Employee's spouse and dependents
  - Accident and health benefits
  - Adoption assistance
  - Dependent care assistance
  - Group-term life insurance
  - Health savings accounts
  - Flexible spending accounts
  - Incentive opt-out programs

Flexible Spending Account

- Popular form of cafeteria plan
- Funded by voluntary salary reduction arrangements
- Reimburses employees - No advance payments
  - Dependent care assistance
  - Adoption assistance
  - Medical care reimbursement
- Subject to annual "use or lose"

Affordable Care Act

- Federal Patient Protection and Affordable Care Act (ACA)
- IRS Notice 2015-17
- Employer premium reimbursement = Group health plan
- Not permissible if limits amounts
- Must be "integrated" with health care plan
- Subject to fine of $100 per day per employee (maximum $36,500 per year per employee)
- Grace period until June 30, 2015
  - Subject to fine thereafter
Legal Update

**21st Century Cures Act**

- **FEDERAL 21ST CENTURY CARES ACT**
  - XVIII USC Section 3008 Effective January 1, 2017
  - Qualified small employer health reimbursement arrangement where employer does not offer group health
  - Funded solely by employer
  - Proof of coverage provided by employer
  - Annual payments subject to annual COL adjustments
    - $4,950 per individual
    - $10,000 per family
    - No variation except on basis of age
    - Fewer than 50 employees
  - Annual notice to employees required 90 days before

**AOS Technical Bulletin 2017-002**

Premium Reimbursement Overview

- Qualified Small Employer Health Reimbursement Arrangement
- Fewer than 50 full-time or full-time equivalent employees
- Does not offer a group health plan to ANY employee
- Provided uniformly to all eligible employees
- Funded solely by the eligible employer
- No salary reduction contributions are made under the reimbursement plan
- Payments and reimbursements for any year do not exceed $4,950.00 per employee or $10,000 per family
Ohio Constitution, Article II, Section 20
- Prohibits in-term change of officer’s compensation

OAG Opinion Request
- Ashtabula Prosecuting Attorney
- February 14, 2017

Article II, Section 20
- Implications for townships which suspend insurance reimbursement because of ACA but have reinstated
- No answer yet
  - Coming soon

2017 OPR 006

2016 OAG 008
- Ohio Constitution, Article II, Section 20
  - Prohibits in-term change of officer’s compensation
- Term period for which person elected or appointed
- Appointed to vacancy
  - Death, resignation, or retirement of another
  - New term
  - Own resignation or retirement
    - New term
- County Sheriff FOJ
  - Computed on amount allowed under § 325.06(A)
    - Regardless of current Sheriff’s actual salary

Force Account Projects
Force Account Project Audits
Rev. Code Section 117.16(A)
- Force Account Project Assessment Form shall include the following:
  - Employees’ salaries and benefits
  - Any other labor costs
  - Materials
  - Freight
  - Fuel
  - Hauling
  - Overhead expenses
  - Workers’ Comp premiums
  - Allowance for use of tools and equipment
  - All other costs and expenses

Force Account Complaints
ORC Section 117.16(B)
- Auditor may conduct additional audit if compliant
- First violation - Reduce for one year
  - County - $30,000/mile road, $15,000 bridge
  - Township - $15,000 maintenance or repair of road
  - $5,000/1 mile construct or reconstruct
  - Municipality - $10,000 street project
- Second in same or subsequent audit - Reduce for 2 years
- Third and subsequent - 20% of total cost forfeiture
  - Tax commissioner withhold

County Engineer Force Account
Rev. Code Section 5543.19
- County Engineer authorized by Commissioners
- AOS estimate form
- $30,000 or less per mile
- $100,000 or less per bridge or culvert project
TOWNSHIP FORCE ACCOUNT  
Rev. Code Section 5575.01

- Contract for road repair or maintenance:
  - Excess of $45,000 - competitive bidding
    - Published once - not less than two weeks before opening
  - $45,000 or less - contract or force account

- Construction or reconstruction of road:
  - County engineer estimate
  - Over $50,000 per mile - competitive bidding

- AOS force account estimate form not required:
  - Maintenance and repair less than $15,000
  - Construction or reconstruction less than $5,000 per mile

MUNICIPAL FORCE ACCOUNT  
Rev. Code Section 723.52

- Construction, reconstruction, widening, resurfacing, or repair of street or public way
- AOS estimate sheet
- $30,000 or less - Force Account
- Over $30,000 - Competitive bids
- Maintain record (R.C. 723.53)

JOINT PROJECTS  
Rev. Code Section 117.161

- A joint force account project is one with one or more other entities.

- The controlling force account limit shall be the higher limit that applies between the participating entities in Rev. Code Section 117.16.

- Participating entities shall not aggregate their respective force account limits, and the share of each participating entity shall not exceed its respective force account limit.
FORCE ACCOUNT UPDATE

- Safe Harbor Provisions
  - Auditor Of State Bulletin 2003-003
  - Still applicable for locally funded projects
    - Overhead Safe Harbor - 38% labor (base wages and fringe benefits)
    - Fringe benefits (48% of total base wages)
    - Overhead Safe Harbor - 15% materials cost

- Federal or ODOT funded force account contributions
  - Check Federal guidelines
  - See Appendix VII of Part 200

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Auditor of State

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Email: mwaltier@ohioauditor.gov

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Dave Yost

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www.OhioAuditor.gov
A Legislative Briefing from the AOS

Presented by: Shawn Busken
Director of Policy and Legislative Affairs

Auditor of State’s Office

- Responsible for auditing 5800 entities
- Rooting out fraud and corruption in public offices
- Conducting Performance Audits for governments at all levels

Policy Initiatives

- HB 103 - O.R.C. 118 Reform
- HB 50 & SB 80 – Promoting SNAP Integrity
- HB 49 – Auditor of State Budget Initiatives
- HB 3 - DataOhio Initiative
- HB 312 - Credit and Debit Card Fraud Prevention
- Medicaid Provider Fraud Prevention
HB 103 - O.R.C. 118 Reform

- Adjusts the Financial Planning and Supervision Commission Make-Up
- Revises the procedures to deal with failure to submit or implement a recovery plan

Financial Planning Commission Make-Up

- 4 ex-officio officers stay the same
- 3-at-large members consist of Governor’s appointee, and in the case of a township two Township Trustees designees
- Similar make-up for other local governments

Commission Makeup

- Cities
  - 5 Local; 2 non -> 3 Local; 4 non
- Townships
  - 4 Local; 3 non -> 3 Local; 4 non
- Counties
  - 4 Local; 3 non -> 3 Local; 4 non
### Municipalities

<table>
<thead>
<tr>
<th>Current Law</th>
<th>Proposal</th>
</tr>
</thead>
</table>
| **4 Ex-Officio Members** | Treasurer of State  
Director of the Office of Budget and Management  
Mayor  
President of Council  
5 Local; 2 non |
| **3 At-large Members** | Governor’s Appointee  
Mayor’s Appointee  
County Auditor or County Fiscal Officer in the case of a chartered county |

### Townships

<table>
<thead>
<tr>
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</table>
| **4 Ex-Officio Members** | Treasurer of State  
Director of the Office of Budget and Management  
Township Trustee  
County Auditor  
4 Local; 3 non |
| **3 At-large Members** | Governor’s Appointee  
Board of Township Trustees appointee  
Board of Township Trustees appointee |

### Counties

<table>
<thead>
<tr>
<th>Current Law</th>
<th>Proposal</th>
</tr>
</thead>
</table>
| **4 Ex-Officio Members** | Treasurer of State  
Director of the Office of Budget and Management  
President of the Board of County Commissioners  
County Auditor  
4 Local; 3 non |
| **3 At-large Members** | Governor’s Appointee  
Board of County Commissioners appointee  
County Executive Appointee in the case of a chartered county  
Board of County Commissioners appointee  
County Council appointee in the case of a chartered county |
The Financial Recovery Plan

• Enforcing the 85% of expenditures rule for the following:
  – Failure to submit or implement the plan
  – Failure to provide accurate financial data within 10 days of the beginning of the month
  – Failure to identify and consider the use of all non-restricted funds

HB 50 & SB 80 – Promoting SNAP Integrity

• 2016 Audit report revealed a number of critical areas where fraud may occur
  – Dead recipients, big balances, number of purchases in short time frame
• Congressional testimony on the Farm Bill

HB 50 & SB 80 – Promoting SNAP Integrity

• The bills require a photo to be placed on the SNAP/EBT Cards
• Exceptions to who is required to have a picture
• Usage questions
AOS Budget Initiatives

- Cybersecurity Training
- Affidavit Review Extension
- Fiscal Distress Escalation
- Streamlining Voluntary Village Dissolution

Cybersecurity Training

- The Fiscal Integrity Act enacted baseline training for all Fiscal Officers
- 24 hours are required in the first term and 12 in the subsequent terms of office
- Allow cybersecurity to be added to list of allowable trainings

Affidavit for Removal of a Fiscal Officer

- The Fiscal Integrity Act also put forth a process to remove a fiscal officer
- Certain elected officials or citizens may submit an affidavit to our office
- Current timeline does not allow for a thorough review
Fiscal Distress Escalation

• Allows the Auditor of State to escalate an entity from fiscal watch to fiscal emergency for failing to act on or implement a financial recovery plan

Streamlining Voluntary Village Dissolution

• Revises the procedure for the submission of village dissolution petitions
• Provides the procedures for transfer of assets at onset of dissolution

Dissolution Petitions

• Allows petitions for dissolution to be submitted to the Board of Elections – Petitions can already be submitted to the legislative authority
• Decreases the signature threshold to qualify for the ballot from 40% to 30%
Transfer of Assets

- Allows for a timely transfer of tangible assets (equipment, buildings, etc.)
- States that the cash balance can only be transferred after an audit by AOS
- Water and sewer transfers must be done in a timely manner per an agreement by the village and township

DataOhio and HB 3

- HB 3 (Duffey, Hagan) is an initiative to promote transparency in government
- Permissive language establishes a uniform chart of accounts in rule
- Permissive language establishes uniform accounting procedures for all local governments in rule

HB 312 - Credit and Debit Card Fraud Prevention

- Provides for tighter controls on use of credit cards by local governments
  - Custody and Control Model
  - Compliance Officer Model
- Eliminates the use of debit cards
  - Only card that has direct access to cash in account
HB 312 - Credit and Debit Card Fraud Prevention

• Increasing the penalty for fraudulent or improper use of card
• Asking entities that choose to use a card to enact a policy surrounding the use of cards

Fixing theft in office penalties

• Since 2010 the work of the Auditor of State’s office has led to the conviction of 135 former public officials for stealing taxpayer money. The most common charge our office brings against a corrupt public official is theft in office.

Fixing theft in office penalties

• Currently, theft in office has a ceiling of a 3rd degree felony.
• Cases over $1 million are still only able to be prosecuted as an F3, in order to prohibit that individual from holding public office in the future.
• Creating a monetary threshold for F-1 and F-2 would create parity.
### Theft in Office Penalties

<table>
<thead>
<tr>
<th>Amount of Loss</th>
<th>Theft Offense Level</th>
<th>Theft Penalty</th>
<th>Theft in Office Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1,000</td>
<td>M-1</td>
<td>Up to 6 months in jail</td>
<td>F-5 6-12 months in prison</td>
</tr>
<tr>
<td>$1,000 - $7,500</td>
<td>F-5</td>
<td>6-12 months in prison</td>
<td>F-4 6-18 months in prison</td>
</tr>
<tr>
<td>$7,500 - $750,000</td>
<td>F-4</td>
<td>6-18 months in prison</td>
<td>F-3 9,12,18,24,30, or 36 months in prison</td>
</tr>
<tr>
<td>$750,000 - $1.5 million</td>
<td>F-3</td>
<td>9,12,18,24,30, or 36 months in prison</td>
<td>F-2 2-8 years in prison</td>
</tr>
<tr>
<td>$1.5 million or more</td>
<td>F-2</td>
<td>2-8 years in prison</td>
<td>F-1 3-11 years in prison</td>
</tr>
</tbody>
</table>

---

### Providing Restitution for Forensic Audit Costs

- Under current statute, the costs of an audit used to determine the amount of theft in office are not recoverable by the entity.
- Restitution may only be ordered "as a direct and proximate result" of the loss. Courts have interpreted audit costs as not being a "direct result" of the offense. As a result, entities have to bear this cost.

---

### Providing Restitution for Forensic Audit Costs

- We recommend allowing a court to order the costs of a public audit as part of restitution when the victim is a public entity.
- There would be no change to the restitution statute.
- This language would affect the theft in office statute, Section 2921.41, so that these standards are applied only to the necessary cases.
Legislative Affairs

Shawn Busken
88 East Broad Street, 5th Floor
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Presenter Phone: (614) 728-7235
E-mail: JSBusken@ohioauditor.gov
GASB 68
Lessons Learned

Presented by: Eric Kline
Agenda

Differences in Pension Plans’ Presentations
Change in NPL Reconciliation
Common Differences Identified in Audits
Questions
Audit Procedures beyond recalculations
Questions

Presentation Differences

For measurement year 2015, the retirement systems presented the information in the GASB 68 Schedules Differently:

- STRS – Presented the Cumulative Totals of the Collective Amounts after Amortization
- OPERS - Presented the Cumulative Totals of the Collective Amounts after Amortization

Presentation Differences

For measurement year 2015, the retirement systems presented the information in the GASB 68 Schedules Differently:

- SERS – Presented NPL at 6/30/15 and only the changes to the collective Deferred Outflows, Deferred Inflows and Pension Expense during the measurement period
- OP&F – Presented NPL at 12/31/15 and only the changes to the collective Deferred Outflows, Deferred Inflows and Pension Expense during the measurement period

Presentation Differences

For measurement year 2015, the retirement systems presented the information in the GASB 68 Schedules Differently:

- SERS – Presented NPL at 6/30/15 and only the changes to the collective Deferred Outflows, Deferred Inflows and Pension Expense during the measurement period
- OP&F – Presented NPL at 12/31/15 and only the changes to the collective Deferred Outflows, Deferred Inflows and Pension Expense during the measurement period
How do the elements affect NPL

Net Pension Liability (NPL) changes each year due to a number of factors, including the financial results of the pension plan, changes in plan benefits, changes in assumptions, actual experience differing from expected experience, etc.

• General impact of the elements on NPL:
  • Deferred Outflows – Increase NPL
  • Except Contributions Subsequent to the Measurement Date
  • Deferred Inflows – Decrease NPL
  • Pension Expense – Increase NPL

Change in NPL Reconciliation

• NPL at the beginning of the year
• Less: FY DO - Contributions Subsequent to Measurement Date
• Plus: Pension Expense
  • Increase (Decrease): DO – Experience
  • Increase (Decrease): DO – Assumptions
  • Increase (Decrease): DO – Investment Earnings
  • Increase (Decrease): DO – Change in Proportion & Contributions
  • (Increase) Decrease: DI – Experience
  • (Increase) Decrease: DI – Assumptions
  • (Increase) Decrease: DI – Investment earnings
  • (Increase) Decrease: DI – Change in Proportion & Contributions
• Equals: NPL at the end of the year

Commonly Identified Differences

Change in Proportion
Difference between Employer Contributions and the Proportionate Share of Contributions
Pension Expense
Net Deferred Outflow/Inflow: Difference between Projected and Actual Investment Earnings
Change in Proportion due to internal allocation
<table>
<thead>
<tr>
<th><strong>Commonly Identified Differences</strong></th>
<th><strong>Change in Proportion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Results from a change in the employer's proportionate share percentage from year to year.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net effect of that change in the proportionate shares of the Collective Net Pension Liability, Collective Deferred Outflows of Resources, and Collective Deferred Inflows of Resources related to pensions determined as of the beginning of the measurement period.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Reported as a Deferred Outflow / Deferred Inflow</strong></td>
<td></td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th><strong>Commonly Identified Differences</strong></th>
<th><strong>Change in Proportion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Noted Issue</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Resulting Deferred Outflow / Deferred Inflow for the Change in Proportion is reported correctly;</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Effect of change on NPL is reported correctly;</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Employer’s financial statements do not reflect the effect of the change in proportion on the collective Deferred Outflows &amp; Deferred Inflows.</strong></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th><strong>Commonly Identified Differences</strong></th>
<th><strong>Change in Proportion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Correct Reporting:</strong></td>
<td></td>
</tr>
<tr>
<td><strong>The change in proportion affects NPL and the remaining unamortized collective Deferred Outflows and Deferred Inflows as of the beginning of the period.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>The employer’s share of collective Deferred Outflows and Deferred Inflows should be adjusted for the change in proportion as of the beginning of the year.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>The amortization schedules for the employer’s financial statements will change from year to year based on the change in proportion</strong></td>
<td></td>
</tr>
</tbody>
</table>
Change in Proportion

<table>
<thead>
<tr>
<th>Proportionate Share</th>
<th>Proportionate Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/31/2014</td>
<td>5/31/2015</td>
</tr>
<tr>
<td>Deferred Outflows of Revenue</td>
<td>Deferred Outflows of Revenue</td>
</tr>
<tr>
<td>Difference between Expected and Actual Experience</td>
<td>Difference between Expected and Actual Experience</td>
</tr>
<tr>
<td>Inflows of Revenue</td>
<td>Inflows of Revenue</td>
</tr>
<tr>
<td>Times the employer’s proportionate share percentage</td>
<td>Times the employer’s proportionate share percentage</td>
</tr>
</tbody>
</table>

Commonly Identified Differences

Change in Proportion

- Proportionate share of the collective Deferred Outflows and collective Deferred Inflows reported on the employer’s financial statements:
- The cumulative unamortized collective totals from all measurement periods as of the measurement periods
- Times the employer’s proportionate share percentage

Cumulative Collective Amount

Deferred Outflows, Difference between Expected and Actual Experience

<table>
<thead>
<tr>
<th>Exp Tax Life</th>
<th>MY 2014 Amounts</th>
<th>AMT 2015 Amounts</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortization Balance</td>
<td>Amortization Balance</td>
<td>Amortization Balance</td>
</tr>
<tr>
<td>Years</td>
<td>10,877,279</td>
<td>10,472,189</td>
<td></td>
</tr>
<tr>
<td>4.5 years</td>
<td>10,659,750</td>
<td>10,659,750</td>
<td></td>
</tr>
<tr>
<td>6.5 years</td>
<td>10,659,750</td>
<td>10,659,750</td>
<td></td>
</tr>
<tr>
<td>8.5 years</td>
<td>10,659,750</td>
<td>10,659,750</td>
<td></td>
</tr>
<tr>
<td>10 years</td>
<td>10,659,750</td>
<td>10,659,750</td>
<td></td>
</tr>
<tr>
<td>12 years</td>
<td>10,659,750</td>
<td>10,659,750</td>
<td></td>
</tr>
</tbody>
</table>
Commonly Identified Differences

Difference between Actual Employer Contributions and the Proportionate Share of Contributions

- Compare actual employer contributions (GAAP basis) for pensions to the proportionate share of total employer contributions for pensions reported by the Pension System

- **Deferred Outflow** – If Actual Contributions are greater than the Proportionate share of total contributions.

- **Deferred Inflow** – If Actual Contributions are less than the Proportionate share of total contributions.

- **Noted Issue:**
  - Actual Employer contributions used for the calculation were cash basis.
  - Actual Employer contributions used for the calculation include contributions that were allocated to health care.
  - The proportionate share of contributions used for this calculation is not always correct.
  - Some employers omitted this difference, resulting in the difference being included as part of Pension Expense.

- **Correct Reporting:**
  - Actual Employer contributions used for the calculation should be GAAP basis (adjusted for payables).
  - Actual Employer contributions used for the calculation should be the total employer contributions less the amount allocated to health care.
  - The proportionate share of contributions used for this calculation should be the total employer contributions for all employers (from the Plan’s financial statements) multiplied by the employer’s proportionate share percentage.
### Commonly Identified Differences

**Pension Expense**

- **Noted Issue:**
  - The Pension Expense amount reflected in the Note disclosure is not correct.
  - Noted instances where the Pension Expense amount as disclosed is net of the current year Deferred Outflows for Contributions Subsequent to the Measurement Date.
- **Correct Reporting:**
  - The Note disclosure should reflect the total Pension Expense for the measurement period.

---

**Net Deferred Outflow/Deferred Inflow for the Difference between Projected and Actual Investment Earnings**

- **Noted Issue:**
  - Noted instances where the DO / DI for the Difference between Projected and Actual Investment Earnings from different years were reported separately.
- **Correct Reporting:**
  - GASB Cod. § P20.132b requires netting Deferred Outflows and Deferred Inflows arising from the difference between projected and actual investment earnings in different periods.
  - **Important** – This is different from the requirements for the Other Deferred Outflows / Deferred Inflows, which may not be netted.

---

**Allocation of Pension Amounts to Funds**

- **GASB 68** does not establish specific requirements.
- **NCGA Statement 1, paragraph 42** – requires long-term liabilities that are “directly related to and expected to be paid from” proprietary and fiduciary funds be reported in those funds.
Allocation of Pension Amounts to Funds

- Pension amounts will generally be allocated to proprietary funds through an "internal" proportionate share.
- No one "right" way to do this. Employers should use a reasonable & rational method.
- Most entities will base the allocation on employer contribution amounts paid from the proprietary funds compared to total employer contributions.
- The AICPA: State and Local Government Guide, ¶13.159 indicates the allocation of pension amounts to proprietary funds, etc. may result in the recognition of additional deferred outflows or deferred inflows related to the changes in proportion from year to year.

Commonly Identified Differences
Allocation of Pension Amounts to Funds

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- Most entities will base the allocation on employer contribution amounts paid from the proprietary funds compared to total employer contributions.
- The AICPA: State and Local Government Guide, ¶13.159 indicates the allocation of pension amounts to proprietary funds, etc. may result in the recognition of additional deferred outflows or deferred inflows related to the changes in proportion from year to year.

Commonly Identified Differences
Change in Internal Proportion

- AOS has generally been referring to these additional Deferred Outflows / Deferred Inflows as the Change in Internal Proportion.
- This amount should be netted with the funds allocated proportion of the overall Deferred Inflow/Deferred Outflow for the change in proportion for the financial statements.
- We do not believe it is appropriate to report this as separate Deferred Outflows / Deferred Inflows.
- GASB 65 – Summary information indicates GASB Concepts Statement 4 provides that Deferred Outflows and Deferred Inflows should be limited to those instances identified by the GASB in authoritative pronouncements.

Commonly Identified Differences
Change in Internal Proportion

- This amount can be calculated in the same manner as the overall change in proportion calculation. A calculation would be performed for each opinion unit to which pension amounts are allocated.
- This change is calculated based on the Total of the Collective Amounts for the Entity as a whole, rather than amounts from the Pension System.
- You can obtain these amounts from the Prior Report.
Commonly Identified Differences

Change in Internal Proportion - Example

• Assumptions:
  • Pension Amounts are allocated between Governmental Activities and Enterprise Fund each year as follows:
    • Governmental Activities:
      • 6/30/14 Measurement Date: 89%
      • 6/30/15 Measurement Date: 90%
    • Enterprise Fund (Enterprise):
      • 6/30/14 Measurement Date: 11%
      • 6/30/15 Measurement Date: 10%

Commonly Identified Differences

Change in Internal Proportion

• Based on the Assumptions on the prior slide, the pension amounts are allocated 90% to Governmental Activities, and 10% to the Enterprise Fund at Measurement Date 6/30/15
• These percentages changed from 89% to Governmental Activities and 11% to the Enterprise Fund at Measurement Date 6/30/14
• These changes result in the need to calculate a Deferred Outflow/Inflow for the Change in Internal Proportion

Commonly Identified Differences

Change in Internal Proportion

• Governmental Activities records the net amount from:
  • 90% of the Overall Deferred Outflow/Inflow for the Change in Proportion and Difference in Contributions, plus
  • The resulting Deferred Outflow / Deferred Inflow from the Change in Internal Proportion
• Food Service Enterprise Fund record the net amount from:
  • 10% of the Overall Deferred Outflow/Inflow for the Change in Proportion and Difference in Contributions, plus
  • The resulting Deferred Outflow / Deferred Inflow from the Change in Internal Proportion
### Change in Internal Proportion

<table>
<thead>
<tr>
<th>Department/Unit of Responsibility</th>
<th>2014-2015</th>
<th>2015-2016</th>
<th>2016-2017</th>
<th>2017-2018</th>
<th>Change in Overall Earnings</th>
<th>Change in Overall Earnings</th>
<th>Change in Overall Earnings</th>
</tr>
</thead>
</table>

#### Deferred Outflow of Resources
- Difference between Expected and Actual Expenditure
- Change of Assumptions
- Net Difference between Deferred and Actual Expenditure

#### Deferred Income of Resources
- Difference between Expected and Actual Receipts
- Change of Assumptions
- Net Difference between Deferred and Actual Receipts

### Governmental Activities

####Change in Internal Proportion

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Original Balance</th>
<th>Amortization</th>
<th>Amortization Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014</td>
<td>150,823</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2015</td>
<td>150,823</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2016</td>
<td>150,823</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2017</td>
<td>150,823</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2018</td>
<td>150,823</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Change in Internal Proportion

- Deferred Outflow of Resources
- Deferred Income of Resources
- Change in Internal Proportion
- Change in Overall Earnings
- Change in Overall Earnings
- Change in Overall Earnings
Change in Internal Proportion
Enterprise Fund

<table>
<thead>
<tr>
<th>NY 2019 Amount</th>
<th>12.79%</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Allocation</td>
<td>14%</td>
</tr>
<tr>
<td>Allocation of GO / DO Overall Change in Proportion</td>
<td>17.271</td>
</tr>
<tr>
<td>DO / GO Change in Internal Proportion</td>
<td>12.136</td>
</tr>
<tr>
<td>Deferral Unfilled</td>
<td>0.867</td>
</tr>
<tr>
<td>Average Expected Remaining Service Lives</td>
<td>4.12</td>
</tr>
<tr>
<td>Annual Amortization</td>
<td>0.286</td>
</tr>
</tbody>
</table>

DO YOU HAVE ANY "QUESTIONS"

Audit Procedures
Beyond Recalculations
Audit Procedures

1. Evaluate the professional qualifications of the actuary.
2. Read the Actuarial Certification.
3. Document the Valuation Date and determine if it is appropriate.
4. Document the Measurement Date and determine if it is appropriate.

Evaluate whether the methods and assumptions used in determining Total Pension Liability were in accordance with GASB 68 & Actuarial Standards of Practice, and are the same used by the plan:

- Projected benefit payments
- Discount Rate
- Entry Age Actuarial Cost Method

Evaluate the professional competence and independence of the plan auditors.

Evaluate the plan auditor’s report on the GASB 68 Schedules.

Agree/Reconcile the NPL reported on the schedule to the NPL disclosed in the notes to the plan’s financial statements.

Agree the fiduciary net position component of NPL disclosed in the notes to the plan financial statements to that reported in the statement of fiduciary net position.

Test the mathematical accuracy of the audited schedules.
Overview

• What is EMIS?
• EMIS Manual & Documentation
• EMIS Reports
  – Legacy Reports
  – Level 2 Reports
  – Secure Data Center
• Contacting EMIS at ODE

What is EMIS?
Education Management
Information System

100,000 teachers

1.7 million students
How is EMIS used?

State and Federal Funding

3,500 public education facilities
A System, Not An Application

EMIS Manual and Data Requirements

- Consistency for State
- Valid Data Codes, Definitions and Formats
- Guidance on Determining Correct Codes

District Software

- Student Information System
- Payroll and HR System
- Financial/Accounting System
EMIS Data Collector

Primary User Interface for EMIS Reporting
Collect, Prepare, Preview, Submit, Review
Hosted at Information Technology Centers

Data Collector User Interface

ODE Data Processing

Statewide processing and checks
Feedback to districts
Provide data for other ODE systems
EMIS Reports

- The reports you may need/want will need to be retrieved from multiple locations
  - Legacy Reports (text report or csv file)
    - Stored by the district or ITC
  - Secure Data Center (SDC)
    - Web based on demand report
    - Accessed through “SAFE” sign-in
  - Level 2 Reports
    - Access through the Data Collector

District (or School) Enrollment

- Access through SDC
  - Shared Reports > Reports for Analysis > Enrollment
- Starting in FY2015
  - Based on FTE calculated for funding
    - May not match exactly
  - Only students educate by the district
  - Based on Enrollment – Not Attendance Info
Expenditure Amounts by Category

- TXT_20xxH_FIN_EXPND_AMT_BY_CAT
  - Legacy report or access through ODE Report Card site
    - Documentation found at:
      - Data > EMIS > Documentation > EMIS Documentation Archives
        - FY16
        - Expenditure Amounts by Category (H)

District (or School) Graduation Rate

- District (or School) Graduation Rate – Customizable
- Access through SDC
  - Shared Reports > Reports for Analysis > Graduation
  - Documentation found at:
    - Data > Report Card Resources > Graduation Rate Component
      - Technical Documentation

Graduation Cohort Report

- CSV_2016G_STU_LONG_GR_2016_4Y
  - Filter on Denominator Column = “Y”
  - Has a Column for Withdrawal Code
  - Has other good info.
Federal Child Count Report

- TXT_2015S_STU_FED_CHILD
- CSV_2015S_STU_FED_CHILD
- As of FY15 based on October 31 (not December 1)
- Documentation found at:
  - Data > EMIS > Documentation > EMIS Documentation Archives
    - FY15
    - Federal Child Count

FTE Detail Report(s)

- Level 2 report
  - Accessed through the Data Collector
  - Documentation found at:
    - Data > EMIS > Documentation > EMIS Documentation Archives
      - FY15
      - Level 2 Report Explanation: FTE Detail Report

FTE Reports

- Most important for funding - level 2 in Data Collector
FTE Detail Report(s)

- Enrollment based (not looking at attendance)
- Based on Enrollment Timeframe along with the Calendar to which the student is assigned
- Student FTE Adjustments Applied and Shown
- Designed to be able to match to the District’s Foundation Funding Report

Contacting EMIS at ODE

- EMIS@education.ohio.gov
- Districts must go through their ITC
Was It Fraud? If So, Who Did It?

Dave Cotton, CPA, CFE, CGFM
Cotton & Company LLP
Alexandria, Virginia
dcotton@cottoncpa.com
Dave Cotton is chairman of Cotton & Company LLP, Certified Public Accountants, headquartered in Alexandria, Virginia. The firm was founded in 1981 and has a practice concentration in assisting Federal and State government agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than two dozen Federal inspectors general as well as numerous other Federal and State agencies and programs.


Dave received a BS in mechanical engineering (1971) and an MBA in management science and labor relations (1972) from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago Graduate School of Business (1977 to 1978). He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).


Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the VSCPA Litigation Services Committee, Professional Ethics Committee, Quality Review Committee, and Governmental Accounting and Auditing Committee. He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter. He is also a member of the Institute of Internal Auditors and the Association of Certified Fraud Examiners.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims and other administrative and judicial bodies.

Dave has spoken frequently on cost accounting, professional ethics, and auditors’ fraud detection responsibilities under SAS 99, Consideration of Fraud in a Financial Statement Audit. He has been an instructor for the George Washington University masters of accountancy program (Fraud Examination and Forensic Accounting), and has instructed for the George Mason University Small Business Development Center (Fundamentals of Accounting for Government Contracts).

Dave was the recipient of the AGA’s 2006 Barr Award (“to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards”) as well as AGA’s 2012 Educator Award (“to recognize individuals who have made significant contributions to the education and training of government financial managers”).
Let’s …

✓ Look at some fraud brainstorming concepts and techniques
✓ Look at some fraud inquiry concepts and techniques
✓ Apply these concepts and techniques to solve a crime …
Fraud Discussions Among Engagement Personnel

- During audit planning
- Interactive exchange of ideas … brainstorming
- Insights of more experienced team members
- How and where the financial statements might be susceptible to fraud within the framework
  - Motive
  - Opportunity
  - Rationalization
- Emphasize importance of proper state of mind (professional skepticism) during the audit
- Include the risk of management override of controls

Fraud Discussions Among Engagement Personnel

- Thoroughly probe the issues
- Consider audit responses to fraud susceptibility
- Summarize known fraud risks and control strengths and weaknesses
- Brainstorm ways that fraud might be committed by someone within the entity (by management or employees) or on the entity (by an outsider)
- Evaluate fraud schemes deemed viable or possible
- React by modifying planned audit tests to ascertain if fraud is occurring
The purpose of brainstorming ....

...is to get as many ideas as possible from a group of people in the shortest possible time. Quantity and not quality is the order of the day. It does not matter if the ideas are thought to be unworkable, or crazy, or outlandish by anybody within the group. Sometimes these ideas are the very ones that are adapted into other forms that solve the problem adequately.

--http://www.mindbloom.net/brain.html

The rules for effective brainstorming ...

1. There should be no criticism of any idea from any member of the group
2. There should be no evaluation of the ideas generated
3. The more ideas generated, the better
4. Combination or modification of the ideas generated is encouraged

--http://www.mindbloom.net/brain.html
The sole practitioner dilemma

✓ How does a sole practitioner meet the SAS 99 brainstorming requirement?

The documentation dilemma

✓ How much should we document?

✓ Follow audit organization policies ...

✓ Follow SAS 103, Audit Documentation ...
  “record of procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.”
W. I. S. E.
A Case Study in Fraud

NOTE:
✓ The names of the organizations and characters in this case study have been changed, and are not the real names of the organizations and persons involved in the case from which this story was derived.
✓ Any similarity between the organizations, characters, and events depicted in this case study and organizations, persons, and events with which you may be familiar is entirely deliberate.
NOTE:

✓ We will need 7 volunteers to assist in the presentation of this case study.
✓ Your assistance, if you volunteer, will not be difficult; it will not be embarrassing.
✓ It will be educational, challenging, and hopefully, fun.
✓ Trust me; you can count on me; I am an accountant.
✓ If you volunteer, you will receive the acclaim of your peers!

Worldwide Institute for Situational Ethics, a not-for-profit organization

Susan Purduper, Executive Director
Robin Plundar, Chief Financial Officer
Helen Weels, Programs Director
Otto Krattic, Board Chair
Salvatore Amander, IT Director
Lewis Skannon, New Board Member
Talia Watt, Receptionist

dcotton@cottoncpa.com
Worldwide Institute for Situational Ethics, a not-for-profit organization

✓ As we learn a little bit about our perpetrators I mean volunteers, see if you can identify any fraud risk factors or vulnerabilities that might indicate a higher risk of fraud.

✓ Fraud Risk Factor: A characteristic that provides a motivation or opportunity for fraud to occur; a rationalization for fraud; or an indicator that fraud may have occurred

Susan Purduper, Executive Director

✓ Sue has been WISE’s executive director for 4 years.
✓ She was selected for the position by WISE’s founder, Otto Krattic, who is now chairman of the board. Sue and Otto work well together and confer frequently about policy.
✓ During Sue’s tenure
  ✓ membership has risen over 220%
  ✓ revenue from fundraising and grants is up over 350%
  ✓ administrative costs have dropped from 20% to 8% of the annual budget
  ✓ total staffing has increased by 150% while administrative staffing has only increased by 15%
Susan Purduper, Executive Director

- Sue is responsible for all hiring and firing decisions including all purchasing and contracting; but she delegates most of what she considers “administrative minutia tasks.”
- Everyone—particularly the board of directors—agrees that Sue has done an outstanding job of meeting the organization’s mission goals and objectives.

Robin Plundar, Chief Financial Officer

- Robin is a retired senior manager from a CPA firm, Hay, Wood, Jubussoff & Company.
- WISE’s executive director, Susan Purduper, hired Robin shortly after she joined WISE 4 years ago.
- When Robin started, the books and the accounting systems were a mess; he quickly brought order to what had been chaos.
- As WISE grew, Robin helped Sue manage the growth, and became a trusted and key advisor to her.
- Robin helped Sue keep administrative staff levels and costs low by expanding his duties as WISE grew. Robin does essentially all of the accounting work; and Sue delegated to him the authority to serve as WISE’s purchasing and contracting officer.
Robin Plundar, Chief Financial Officer

✓ Robin works long hours during the week and on most weekends, he is always cheerful; a true team player.
✓ Robin has always been very satisfied with the modest annual pay increases Sue has recommended for him over the years.
✓ Everyone agrees that Robin does a terrific job; Sue always gives him a great deal of the credit for WISE’s success; Robin is very happy working for WISE and has, in fact, turned down offers to work for larger organizations for substantial pay increases

Helen Weels, Programs Director

✓ Helen joined WISE three years ago, after the executive director, Susan Purduper, met her at a national conference put on by her then employer, the National Association of Association Conference Planners and Directors.
✓ Helen immediately implemented a plan to increase WISE’s conference attendance and publications sales.
✓ Helen did an analysis that revealed that the country’s two most popular conference locations are Las Vegas and Atlantic City. After she moved WISE’s 4 major conferences to these locations, conference attendance increased by 30%, although on-site registration stayed about the same, even declining slightly.
Helen Weels, Programs Director

- Publication sales at conferences initially increased along with the increased attendance, but then leveled off and started declining slightly.
- Helen even added two more conferences to WISE’s annual schedule.
- Helen’s success in expanding WISE’s conference programs has been recognized by both the board and the executive director.

Otto Krattic, Board Chair

- Otto is a former senior Federal executive and gained prominence for his groundbreaking work in advanced situational ethics applications.
- Otto founded WISE eight years ago and initially served as both executive director and board chair.
- Otto hired Susan Purduper as executive director 4 years ago so that he could spend more time speaking at conferences and consulting on political campaigns.
Otto Krattic, Board Chair

✓ Otto has semi-annual Board meetings at which the executive director and the programs director give updates on operational and programmatic activities and achievements, and the CFO gives updates on financial matters, primarily focusing on the annual budget and tracking actual-to-budget performance.

Salvatore Amander, IT Director

✓ Sal joined WISE three years ago. His previous job was as a senior IT manager for Hay, Wood, Jubussoff & Company, a CPA firm.
✓ When Sal arrived, the WISE IT structure was a mess. Most of the organization’s computers were obsolete, the network was slow and inefficient, and WISE was not even using a broadband internet connection. WISE did not even have any sort of virus protection system; Sal found all of the entity’s PCs infected with multiple viruses.
✓ Within the first six months, Sal upgraded all of WISE’s systems to state-of-the-art hardware and software, installed appropriate firewalls and virus protection, and arranged for a high-speed T-1 connection.
Salvatore Amander, IT Director

✓ Sal also implemented several linked databases that integrate accounting, fundraising, membership, and conference registration information.
✓ Sal prepared a report that estimated that the cost savings from the more efficient systems more than offset the additional IT budget costs.
✓ The executive director, Susan Purduper, has been very pleased with Sal’s work, and WISE has given Sal generous performance bonuses the past two years.

Lewis Skannon, New Board Member

✓ Lew is considered to be a rising star in the field of situational ethics, having gotten his start working as campaign manager for Bill Clinton, during Bill’s unsuccessful bid for governor of Alaska in 2012.
✓ Lew met Otto Krattic, WISE’s founder, at a conference where Lew had delivered a talk entitled “If It Sounds Good, Say It!”
✓ After Otto asked Lew to join the WISE board six months ago, Lew quickly immersed himself in WISE details.
Lewis Skannon, New Board Member

✓ Lew has asked many questions about WISE operations:
  ✓ Why are we spending so much on information technology?
  ✓ Why is publications expense rising faster than publications revenue?
  ✓ Why have on-site conference registrations decreased so drastically in the past two years?
  ✓ Why can’t the programs director or the IT director or the CFO give me straight answers to any of my questions?
  ✓ Why doesn’t the board meet monthly?
  ✓ … and so forth …

Lewis Skannon, New Board Member

✓ Otto, who was initially supportive, seemed to become impatient with Lew. At Lew’s first board meeting three months ago, Otto said to Lew “Maybe you should take a few months to get to know the organization better.” Everyone laughed.

✓ Susan, however, has been very patient with Lew’s questions. At the board meeting, she directed staff to get answers to each of Lew’s questions “immediately, if not sooner.”
Talia Watt, Receptionist

✓ Talia is outgoing, talkative, effervescent, and pleasant at all times.
✓ Callers and visitors often comment to the executive director, Susan Purduper, about Talia’s cheery attitude, pleasant manner, and helpfulness.
✓ Talia was hired by the WISE founder, Otto Krattic, not long after WISE started.
✓ In addition to answering the phones and greeting visitors, Talia manages office supplies, and coordinates deliveries.
✓ Talia also opens and sorts the mail, including invoices from vendors. She also keeps a log of accounts payable and, when she mails out checks, she notes accounts as “paid.”

WISE Selected Financial Information

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>55,295</td>
<td>61,899</td>
<td>91,756</td>
<td>109,873</td>
<td>121,985</td>
</tr>
<tr>
<td>Dues Revenues</td>
<td>$30,412,250</td>
<td>$34,044,450</td>
<td>$50,465,800</td>
<td>$60,430,150</td>
<td>$67,091,750</td>
</tr>
<tr>
<td>Program &amp; Grant Revenue</td>
<td>239,075</td>
<td>256,098</td>
<td>635,987</td>
<td>724,589</td>
<td>843,575</td>
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<tr>
<td>Conferences Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Pre-Registrations</td>
<td>7,208,734</td>
<td>7,307,543</td>
<td>8,102,355</td>
<td>8,765,419</td>
<td>9,359,887</td>
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<tr>
<td>On-site Registrations</td>
<td>764,097</td>
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<td>871,098</td>
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<td>2,543,009</td>
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<td>Total Revenue</td>
<td>$41,167,165</td>
<td>$45,232,493</td>
<td>$62,732,327</td>
<td>$73,676,157</td>
<td>$80,965,119</td>
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## WISE Selected Financial Information

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<thead>
<tr>
<th></th>
<th>2013</th>
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<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Fundraising Costs</td>
<td>$7,603,063</td>
<td>$8,511,113</td>
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<td>Program &amp; Grant Expenses</td>
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<td><strong>Administrative Costs</strong></td>
<td></td>
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</tr>
<tr>
<td>Salaries</td>
<td>985,609</td>
<td>1,024,541</td>
<td>1,063,472</td>
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<td><strong>Total Expenses</strong></td>
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<td><strong>Surplus/(Deficit)</strong></td>
<td>$54,017</td>
<td>$21,007</td>
<td>$(2,957)</td>
<td>$(20,830)</td>
<td>$(27,796)</td>
</tr>
</tbody>
</table>

## Brainstorming to Find Fraud

- Gather into brainstorming teams of 4-5 people
- Select a scribe
- Using the information you know about this case so far, brainstorming ways that fraud might be happening at WISE
- Following the rules for effective brainstorming
- Take 15 minutes
- Following the brainstorming session, use 5 minutes to decide on questions to ask our panelists. Each team is limited to asking only 5 questions, so select your questions and targets for those questions wisely (no pun intended)
Fraud Inquiries

**Fraud Interviewing Techniques for Auditors**

- Why? (What do standards require?)
- Integrate brainstorming and interviews
- Characteristics of a “good” interviewer
- Logistics
- Types of questions
- Question sequence
- Overcoming resistance or hostility
- Recognizing deception
- Interviews versus interrogations
Why do I have to talk to people?

Let’s look at what SAS 99 requires.

In addition to the inquiries [of management the audit committee and internal audit], the auditor should inquire of others within the entity about the existence or suspicion of fraud. ...use professional judgment to determine those others within the entity to whom inquiries should be directed and the extent of such inquiries.
Why do I have to talk to people?

In addition to the inquiries [of management, the audit committee and internal audit], the auditor should inquire of others within the entity about the existence or suspicion of fraud. ...use professional judgment to determine those others within the entity to whom inquiries should be directed and the extent of such inquiries.

Integrate brainstorming and fraud inquiries

✓ Brainstorming yields a list of potentially viable fraud scenarios that MIGHT be occurring.

✓ What is the most efficient way to determine if such scenarios might actually be happening?

✓ Often, the most efficient way is through carefully planned fraud inquiries:
  ✓ Who would be in a position to see a particular fraud scheme?
  ✓ What questions can we ask her/him to determine if that fraud might be happening?
Fraud Interviewing Techniques for Auditors

✓ Why? (What do standards require?)
✓ Integrate brainstorming and interviews
✓ Characteristics of a “good” interviewer
✓ Logistics
✓ Types of questions
✓ Question sequence
✓ Overcoming resistance or hostility
✓ Recognizing deception
✓ Interviews versus interrogations

Who Did It? (And What Did He or She Do?)

Susan Purduper, Executive Director
Robin Plundar, Chief Financial Officer
Helen Weels, Programs Director
Otto Krattic, Board Chair
Salvatore Amander, IT Director
Lewis Skannon, New Board Member
Talia Watt, Receptionist

dcotton@cottoncpa.com
Was It Fraud? If So, Who Did It?

Dave Cotton, CPA, CFE, CGFM
Cotton & Company LLP
Alexandria, Virginia
dcotton@cottoncpa.com
Susan Purduper, Executive Director
- Sue has been WISE’s executive director for 4 years.
- She was selected for the position by WISE’s founder, Otto Krattic, who is now chairman of the board. Sue and Otto work well together and confer frequently about policy.
- During Sue’s tenure
  - membership has risen over 220%
  - revenue from fundraising and grants is up over 350%
  - administrative costs have dropped from 20% to 8% of the annual budget
  - total staffing has increased by 150% while administrative staffing has only increased by 15%
- Sue is responsible for all hiring and firing decisions including all purchasing and contracting; but she delegates most of what she considers “administrative minutia tasks.”
- Everyone—particularly the board of directors—agrees that Sue has done an outstanding job of meeting the organization’s mission goals and objectives.

Robin Plundar, Chief Financial Officer
- Robin is a retired senior manager from a CPA firm, Hay, Wood, Jubussoff & Company.
- WISE’s executive director, Susan Purduper, hired Robin shortly after she joined WISE 4 years ago.
- When Robin started, the books and the accounting systems were a mess; he quickly brought order to what had been chaos.
- As WISE grew, Robin helped Sue manage the growth, and became a trusted and key advisor to her.
- Robin helped Sue keep administrative staff levels and costs low by expanding his duties as WISE grew. Robin does essentially all of the accounting work; and Sue delegated to him the authority to serve as WISE’s purchasing and contracting officer.
- Robin works long hours during the week and on most weekends, he is always cheerful; a true team player.
- Robin has always been very satisfied with the modest annual pay increases Sue has recommended for him over the years.
- Everyone agrees that Robin does a terrific job; Sue always gives him a great deal of the credit for WISE’s success; Robin is very happy working for WISE and has, in fact, turned down offers to work for larger organizations for substantial pay increases.

Helen Weels, Programs Director
- Helen joined WISE three years ago, after the executive director, Susan Purduper, met her at a national conference put on by her then employer, the National Association of Association Conference Planners and Directors.
- Helen immediately implemented a plan to increase WISE’s conference attendance and publications sales.
- Helen did an analysis that revealed that the country’s two most popular conference locations are Las Vegas and Atlantic City. After she moved WISE’s 4 major conferences to these locations, conference attendance increased by 30%, although on-site registration stayed about the same, even declining slightly.
- Publication sales at conferences initially increased along with the increased attendance, but then leveled off and started declining slightly.
- Helen even added two more conferences to WISE’s annual schedule.
- Helen’s success in expanding WISE’s conference programs has been recognized by both the board and the executive director.

Otto Krattic, Board Chair
- Otto is a former senior Federal executive and gained prominence for his groundbreaking work in advanced situational ethics applications.
- Otto founded WISE eight years ago and initially served as both executive director and board chair.
- Otto hired Susan Purduper as executive director 4 years ago so that you could spend more time speaking at conferences and consulting on political campaigns.
Otto has semi-annual Board meetings at which the executive director and the programs director give updates on operational and programmatic activities and achievements, and the CFO gives updates on financial matters, primarily focusing on the annual budget and tracking actual-to-budget performance.

Due the WISE’s success and growth under Susan’s management, the Board has given her great latitude in day-to-day management and decision-making. Susan makes all hiring and firing decisions and is responsible for all purchasing decisions.

**Salvatore Amander, IT Director**

- Sal joined WISE three years ago. His previous job was as a senior IT manager for Hay, Wood, Jubussoff & Company, a CPA firm.
- When Sal arrived, the WISE IT structure was a mess. Most of the organization’s computers were obsolete, the network was slow and inefficient, and WISE was not even using a broadband internet connection. WISE did not even have any sort of virus protection system; Sal found all of the entity’s PCs infected with multiple viruses.
- Within the first six months, Sal upgraded all of WISE’s systems to state-of-the-art hardware and software, installed appropriate firewalls and virus protection, and arranged for a high-speed T-1 connection.
- Sal also implemented several linked databases that integrate accounting, fundraising, membership, and conference registration information.
- Sal prepared a report that estimated that the cost savings from the more efficient systems more than offset the additional IT budget costs.
- The executive director, Susan Purduper, has been very pleased with Sal’s work, and WISE has given Sal generous performance bonuses the past two years.

**Lewis Skannon, New Board Member**

- Lew is considered to be a rising star in the field of situational ethics, having gotten his start working as campaign manager for Bill Clinton, during Bill’s unsuccessful bid for governor of Alaska in 2012.
- Lew met Otto Krattic, WISE’s founder, at a conference where Lew had delivered a talk entitled “If It Sounds Good, Say It!”
- After Otto asked Lew to join the WISE board six months ago, Lew quickly immersed himself in WISE details.
- Lew has asked many questions about WISE operations:
  - Why are we spending so much on information technology?
  - Why is publications expense rising faster than publications revenue?
  - Why have on-site conference registrations decreased so drastically in the past two years?
  - Why can’t the programs director or the IT director or the CFO give me straight answers to any of my questions?
  - Why doesn’t the board meet monthly?
  - … and so forth …
- Otto, who was initially supportive, seemed to become impatient with Lew. At Lew’s first board meeting three months ago, Otto said to Lew “Maybe you should take a few months to get to know the organization better.” Everyone laughed.
- Susan, however, has been very patient with Lew’s questions. At the board meeting, she directed staff to get answers to each of Lew’s questions “immediately, if not sooner.”

**Talia Watt, Receptionist**

- Talia is outgoing, talkative, effervescent, and pleasant at all times.
- Callers and visitors often comment to the executive director, Susan Purduper, about Talia’s cheery attitude, pleasant manner, and helpfulness.
- Talia was hired by the WISE founder, Otto Krattic, not long after WISE started.
- In addition to answering the phones and greeting visitors, Talia manages office supplies, and coordinates deliveries.
- Talia also opens and sorts the mail, including invoices from vendors. She also keeps a log of accounts payable and, when she mails out checks, she notes accounts as “paid.”
### Worldwide Institute for Situational Ethics
#### Selected Financial Information
#### 2013 to 2017

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td><strong>Members</strong></td>
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<td>6.18%</td>
<td>2,759,080</td>
<td>6.10%</td>
<td>2,657,087</td>
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<td>1,063,472</td>
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<td><strong>Salaries</strong></td>
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<td><strong>IT Costs</strong></td>
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<td>0.97%</td>
<td>870,998</td>
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