Audit Update

Presented by: Joey Jones, CPA
Chief Auditor-East Region
jjones@ohioauditor.gov

What We Will Be Covering

Participants may learn the following
- Upcoming GASB Statements
- OCS Update
- Segregation of Duties
- Common Citations and Internal Control Comments
- New Bulletins
- Where to find help!

GASB Pronouncements

GASB 75: OPEB
- Fiscal years beg after 6/15/17
- Postemployment Benefits Liability – Healthcare, etc.
- Similar to GASB 68

GASB 84: Fiduciary Activity
- Fiscal years beg after 12/15/18
- Agency now Custodial Funds
- OCBOA/GAAP Operating Statement

http://gasb.org/
## GASB Pronouncements/Other

<table>
<thead>
<tr>
<th>GASB 87: LEASES</th>
<th>Financial Reporting Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fiscal years beg after 12/15/19</td>
<td></td>
</tr>
<tr>
<td>• Provides Lease Guidance</td>
<td></td>
</tr>
<tr>
<td>• Reexamination</td>
<td></td>
</tr>
<tr>
<td>• Late 2018 PV document for comment</td>
<td></td>
</tr>
</tbody>
</table>

http://gasb.org/

---

## Compliance-OCS

The OCS uses double underlining to indicate new or revised legislative or accounting standard requirements.

The OCS uses waved underlining to highlight:
- Pre-existing laws we have now determined auditors should test (i.e., requirements not appearing in former OCS editions).
- New or amended guidance. Most of these changes represent information we believe will enhance understanding compliance auditing or reporting.

The OCS uses strike-out font to indicate replaced or omitted legislative requirements. We have not deleted these sections since they may still apply to part of an audit period. Also, retaining this information will help users better understand the changes.

---

## Ohio Compliance Supplement

The OCS uses double underlining to indicate new or revised legislative or accounting standard requirements.

The OCS uses waved underlining to highlight:
- Pre-existing laws we have now determined auditors should test (i.e., requirements not appearing in former OCS editions).
- New or amended guidance. Most of these changes represent information we believe will enhance understanding compliance auditing or reporting.

The OCS uses strike-out font to indicate replaced or omitted legislative requirements. We have not deleted these sections since they may still apply to part of an audit period. Also, retaining this information will help users better understand the changes.
Ohio Compliance Supplement

- Where is it located?
  - Auditor of State's website
  - Resources / Publications & Manuals

http://www.ohioauditor.gov/references/compliancemanuals.html
Where do I find it?

- Guide for Legal Compliance Auditing in Ohio
- Includes a lot of information and guidance

Ohio Compliance Supplement Implementation Guide (PDF)

- Exhibit 3 Compliance ACE (Microsoft Word)

Ohio Compliance Supplement Manual (PDF)

- Chapter 1 - Direct Laws (PDF) (Microsoft Word)
- Chapter 2 - Indirect Laws and Statutorily Mandated Tests (PDF) (Microsoft Word)
- Chapter 3 - Stewardship (PDF) (Microsoft Word)

Optional Procedures Manual (Microsoft Word)

OCS Implementation Guide

- Guide for Legal Compliance Auditing in Ohio
- Includes a lot of information and guidance
2018 IG Changes

• Audit Findings – clarified statutory legal counsel
• Exhibit 2 – Public Officers’ Bond – summarized in a set of tables
• Exhibit 5 – Legal Matrices – updated
2018 IG Changes

- Exhibit 6 Entities not included
  - Entity types which have NOT been considered for the applicability of OCS steps
  - Reference purposes only
    - Government Insurance Pools ORC 9.833, 2744.08

DAVE YOST
Ohio Auditor of State
www.ohioauditor.gov
2018 Chapter 1 Changes

1-6: Transfer of Funds - 1-6  Taxing authority of any political subdivision, with the approval of the Tax Commissioner (effective 6/30/17), may transfer from one fund to another any public funds under its supervision. Forms for the approval of the Tax Commissioner are available at http://www.tax.ohio.gov/Government/forms.aspx

1-17: Annual financial reporting – clarified testing for AOS Annual Financial Statement Filing Inquiry Form (refile)

1-24: Definitions, rates of contributions, etc. – clarified guidance regarding PERS earnable salary. PERS withholdings should be computed on earnable (i.e. usually gross) salary, that is computed on gross pay before deducting medical, dental, vision, and flexible spending

2018 1-25 UPMIFA

• Obtain supporting documentation for any material endowments. The activity may be recorded in:
  - Private Purpose Trust Fund
  - Permanent Fund
  - Special Revenue Fund
  - General Fund

• If the government wants to release or modify more than 5% of any of the “non-spendable” portions:
  - Review any applications/approvals from appropriate courts
  - Determine if limitations on time and/or totals were adhered to
  - Determine if the uses are consistent with expressed purposes

2018 Chapter 2 Changes

• 2-16,17,18: Force Accounts – clarifications to guidance.
  - Force accounts undertaken as part of a Federally-Funded Local Project Agreement with ODOT
  - Force Accounts undertaken strictly by the Local (i.e., NOT as part of a Federally-Funded Local Project Agreement with ODOT)
2018 Chapter 2 Changes

- **2-22: Fraud, Abuse, Conflict of Interest, Ethics** – The Attorney General maintains a listing of incompatible public offices.
- **2-23: Availability of public records – added some exempt items**
  - Certain competitive bid information
  - Certain public depository information

---

2018 Chapter 3 Changes

3-5: Bonding Requirements

Exhibit 2 in the OCS Implementation Guide includes:
- Table 1: Those required by statute to give bond (minimum specified),
- Table 2: Those required by statute to give bond (with no amount specified), and
- Table 3: Those for which the board may require to give bond

---

2018 Chapter 3 Changes

3-15: Reimbursement of Township insurance premiums- See OCS for changes

Note: Can’t be reimbursed for immediate dependents if they elect not to participate in the plan (2017 Op. Atty. Gen. No. 2017-007)

- Possible FFR 2018
2018 Chapter 3 Changes
3-17: Fiscal Integrity Act-clarified testing
• Newly elected or appointed fiscal officer
• Completed the first year of their term during the years being reviewed
• Obtain evidence received required training
• Applies to fiscal officers whose term begins after 3-23-2015

Optional Procedure Manual
The Auditor of State intends to select a few audits randomly each year, to test requirements listed in OGS Optional Procedures Manual (OPM). The omission of these requirements from testing does not lessen a government’s responsibility for compliance and for instituting controls it believes are necessary to assure compliance with any laws and regulations that apply to the government.

Sample OPM
- O-3 allocating interest
- O-13 Township expenditures and competitive bidding
- O-19 Bids and Contracts required for buildings and other structures
- O-22 Various – use of government credit/purchasing cards
- O-23 Municipal securities
  - The term Municipal Security refers to any local government security, not just those municipalities issue, pursuant to 15 U.S.C. § 78c(a)(29).
Segregation of Duties

NEW

Authorizing

Asset Custody

Segregation

Record Keeping

Reconciling

How AOS will evaluate SOD

- Tool/practice aid to systematically evaluate SOD
- Spreadsheet which documents all processes in a given cycle along with the auditee staff individual responsible for completing it
- Primary cycles it will be used for include:
  - Self-assessed Taxes
  - Charges for Services
  - Over the Counter Receipts
  - Payroll Disbursements
  - Non-Payroll Disbursements
  - Capital Assets/Inventory
  - Bank/Investments

Audit Finding

Conclusion of fact an auditor finds as part of the audit process
- Noncompliance citations
- Findings for abuse
- Findings for adjustment
- Findings for recovery
Note
I am not a licensed attorney—these violations were noted from our executive summary portal based on information input—I can’t attest to the accuracy or the applicability to your particular entity type. If you have legal related questions— they need addressed to your legal counsel.

1-Ohio Rev. Code § 5705.41(D)

Issue
• Failure to properly encumber expenditures

Solution
• Then and Now Certification
• Blanket Certificates
• Approved maximum required
• Super Blanket Certificates

2-Ohio Rev. Code § 149.43

Issue
• Availability of public records and related policies
• Missing public records

Solution
• Public records policy needs displayed
• Needs to be displayed in each branch
• Policy needs adopted by Board
• Maintain records according to retention
3-Ohio Rev. Code § 5705.41(B)

**Issue**
- Expenditures in excess of appropriations

**Solution**
- Accounting system checks in place
- Remember on-behalf transactions

---

4-Ohio Rev. Code § 5705.10

**Issue**
- Revenue paid into incorrect fund
- Deficit fund balances

**Solution**
- Use sources to determine restrictions
- Evaluate funds no longer in use
- Transfer or advance

---

5-Ohio Rev. Code § 117.38

**Issue**
- Failure to file report by deadline
- Incomplete report filed

**Solution**
- Verify report filed via HINKLE
- Request extension if conditions met
- Include notes to the financial statements
6-Ohio Rev. Code § 5705.39

**Issue**
- Appropriations in excess of certified estimated resources
- Accounting system checks in place
- Certificate received from county auditor

**Solution**


7-Ohio Rev. Code § 5705.36

**Issue**
- Failure to certify available revenue
- Failure to request amendment

**Solution**
- Certify by Dec 31
- Review estimate versus actual


8-Ohio Rev. Code § 5705.38

**Issue**
- Annual appropriation measure
- Adopted late
- Legal level of control (LLC)

**Solution**
- Document approval in minutes
- Attach support/check totals
- Ensure personal services/other
- At a minimum-fund level not ok
9-Ohio Rev. Code § 117.103 (B) (1)

**Issue**
- Provide employees notice of Ohio fraud reporting system
- Maintain documentation to prove notice given (personnel file)
- AOS web-site has model form [https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf](https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf)

**Solution**

---

10-Ohio Rev. Code § 135.22

**Issue**
- Investment training
- Obtain required training, or
- Provide annual notice of training exemption to the AOS

**Solution**

---

**Note**

I have not audited these clients or can attest to the accuracy of these issues-these issues were noted from our executive summary portal based on the information input to capture the results-actual results may vary.
1-Audit Adjustment / Reclassification

Issue
- GASB 34: Fund balance classifications
- Reclassify receipts
- Revenues recorded net of expenditures

Solution
- Review AOS Bulletin 2011-004
- Use shells/guidance on AOS website
- Book at gross receipts and book the exp

2-Budgetary accounting system

Issue
- System amounts did not match approved amounts
- Make sure appropriations passed agree to system amounts
- Make sure county certified resources agree to system amounts

Solution
- Make sure appropriations passed agree to system amounts
- Make sure county certified resources agree to system amounts

3-Cash-Bank Reconciliation

Issue
- Bank reconciliation not timely
- Some accounts missing
- Old outstanding items
- Complete monthly reconciliations
- Make sure all accounts included in reconciliation
- Clear outstanding items and possibly have board approve write-offs

Solution
- Complete monthly reconciliations
- Make sure all accounts included in reconciliation
- Clear outstanding items and possibly have board approve write-offs
4-Payroll deficiency

**Issue**
- Withholdings paid late
- Hours paid did not agree to support
- Pay rates not approved

**Solution**
- Pay withholdings timely
- Ensure pay supported
- Authorize pay rates

5-Non payroll deficiency

**Issue**
- No policy for travel or meals
- Expenditures not supported
- Did not certify expenditures

**Solution**
- Adopt and follow policy
- Maintain invoices
- Certify expenditures

6-Debt accountability deficiency

**Issue**
- Payment not timely
- Activity not recorded
- No debt schedule

**Solution**
- Maintain and follow schedule
- Record receipts & disbursements
- Record principal and interest
7-Financial monitoring

Issue
- Financial statement errors

Solution
- Have a review process in place
- Monthly report and yearly f/s reviews

8-Policy Deficiencies

Issue
- No policies for credit card, cash overage/shortage, proper public purpose, etc.
- Not following policies

Solution
- Establish written policies
- Verify compliance with written policies

9-Fund classification deficiency

Issue
- Major fund error
- Fund balance classification

Solution
- Complete spreadsheet (assets)
- Review GASB 54 Bulletin 2011-004
10-Board oversight / review

Issue
• Fee schedule not adopted
• Board minute approval
• BVA reports
• Adjustment approval

Solution
• Adopt fee schedules
• Approve minutes and financial reports
• Have procedures in place to approve adjustments-potential fraud area

Help?
• Other fiscal officers
• Your legal counsel
• Handbooks
• Associations
• UAN helpline
• AOS regional offices
• AOS web site

AOS Regional Office Numbers
Southeast  800-441-1389
East       800-443-9272
Southwest  800-386-7419
Northeast  800-826-2297
Central    800-443-9275
West       800-443-9274
Northwest  800-443-9276
AOS Bulletins

- No Bulletins issued since 4/21/17
- This space reserved to discuss any new Bulletins issued after Feb 9, 2018

---

Best Practices

---

**BEST PRACTICES**

How to minimize the risk of credit-card abuse

---
2017 – Best Practices
- December
  - Credit Card
  - 10 items every policy shall contain
- November
  - Payroll Fraud
  - Internal Controls are Vital
- October
  - Cyber attack
  - Definitions
  - Do you pay the Ransom?

2016 – Best Practices
- September
  - Check Fraud
  - Positive Pay
  - Check/Debit Block
  - ACH Positive Pay
  - Masking UPIC

2011 – Best Practices
- Summer 2011
  - Ohio ethics law
  - SkinnyOhio.org
- Winter 2011
  - Performance audit
  - LEAP Fund

DAVE YOST
Ohio Auditor of State
www.ohioauditor.gov
2010 – Best Practices
- Fall 2010
  - 60 day school projects
- Summer 2010
  - ARRA
- Fraud Issue 2010
- Spring 2010
  - Do we qualify for AUP?

2009 – Best Practices
- Winter 2009-2010
  - Lesson Learned-Strengthened Practices and Policies in the Aftermath of Fraud
- Fall 2009
  - Performance audits how to measure up when the economy is down
- Spring 2009
  - Open meetings and open records laws

2008 - Best Practices
- Winter 2008/2009
  - The face of fraud-who commits it and why
- Fall 2008
  - Got GAAP
- Spring 2008
  - What is strategic budgeting
- Winter 2008
  - Performance measurement and management
2007 - Best Practices

- Winter 2007
  - Disaster Recovery Plans
  - Sample Recovery Plans
- Fall 2007
  - Accountability for public money
  - Cash handling policies

2006 - Best Practices

- Spring & Winter 2006
  - Fraud Indicators & Red Flags
  - Occupational Fraud & Abuse
  - Ethics Policies

2005 - Best Practices

- Spring
  - Audit Committees
  - Public Records
  - Identity Theft

DAVE YOST
Ohio Auditor of State
www.ohioauditor.gov
2004 – Best Practices

- Winter
  - Purchasing cards
  - Government owned vehicles
- Spring
  - Cell phones
  - Travel policies
Always Remember........
Auditors are here to help!!

DAVE YOST
Ohio Auditor of State

www.ohioauditor.gov