



Dave Yost
Auditor of State



**YOUR FIRST
AUDIT**

Presented by:
Douglas G. Ferguson

Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

AGENDA

- Auditor of State - Structure of the Office
- Filing of Financial Statements
- Answers to "Who", "Why", "What", "When", & "How" we Audit
- Getting Ready for an Audit




Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Structure of the Office

Auditor of State (AOS) Web Site:
www.auditor.state.oh.us

Audit Division:

- Financial Audit Group (8 regional offices)
- Local Government Services (LGS)
- Center for Audit Excellence
- Special Audits




Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Structure of the Office

Contact Information

Akron/Canton	800-443-9272
Cincinnati	800-368-7419
Cleveland	800-626-2297
Columbus/State	800-443-9275
Dayton	800-443-9274
Athens	800-441-1389
Toledo	800-443-9276
Youngstown	800-443-9271



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Annual Filing Requirement

AOS Bulletins 2005-002, 2006-002, & 2008-001
<http://www.ohioauditor.gov/services/lgs/bulletins/default.htm>



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Types of Reports

AOS Regulatory Basis:

- Cash basis by fund type

Other Comprehensive Basis of Accounting (OCBOA) (GAAP "look like") Basis:

- Cash basis by major funds and all other funds grouped

Generally Accepted Accounting Principles (GAAP):

- Includes all accruals, rarely (if ever) used for Townships



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Practice Aids for Reports

Your accounting system may generate as a system report (ex. UAN does)

AOS Regulatory Basis:

<http://www.ohioauditor.gov/resources/ipa/FinancialStatements/default.htm>

OCBOA Basis:

<http://www.ohioauditor.gov/services/lgs/AICPAInterpretation/default.htm>



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Filing Deadline

- ❑ Townships reporting under the AOS Regulatory Basis or OCBOA basis are required to file under the cash basis deadline.

Cash basis deadline is a filing of reports within 60 days after the close of the fiscal year



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Filing Reports

- ❑ Fiscal officer submits annual financial reports to AOS

Not to audit staff during the audit

- ❑ Submitted version does not need to be audited



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Where to file

Email a PDF version to the following email address:

LGSAnnualFinancialReports@auditor.state.oh.us

In the email, request that a hard copy be printed for filing purposes.



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Failure to file and late filing

- \$25/day
- \$750 maximum
- May be waived upon filing



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Auditing



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process

ANSWERING THOSE FIVE
LITTLE QUESTIONS

- ❑ Who audits?
- ❑ Why are audits required?
- ❑ What is an audit?
- ❑ When are audits performed?
- ❑ How to prepare for an audit?





Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "WHO"

- ❑ The Auditor of State performs audits of more than 5,600 local governments.
- ❑ Some audits are performed by Independent Public Accountants (IPAs) on a contract basis.





Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

IPA Audit

Auditor of State request
Client request (with Auditor of State approval)
Auditor of State approves scope of audit

- ❑ through RFP as part of contracting
- ❑ with the selection of the firm





Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

IPA Audit

Is an IPA audit any different than one through the Auditor of State?

No - The audit is performed under the same set of auditing standards following the same requirements

The only difference is that it is an audit firm other than the Auditor of State.



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "WHY"

Charged with the duty by the Ohio Revised Code (ORC 117.09 , ORC 117.11)

Federal dollars expended - Circular A-133 (Single Audit) requires

- Greater than \$500,000 in federal funds expended in any one calendar year.



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "WHAT"



Provides a financial statement opinion

- useful for public interest, bond ratings, & financial management

Determines compliance with state & local laws, contracts & debt covenants

Evaluates internal control and provides recommendations

Provides an opinion on the compliance of grant programs in the case of a Single Audit



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Benefits of an audit

- ▣ Credibility of financial statements
- ▣ Aid investment and credit decision makers
- ▣ Control and Compliance Aspects
 - Independent check on information against existing laws and controls established.
 - Motivates those charged with duties as part of the operations to carry out process as designed.



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "WHEN"

Townships may be audited every 2 years

Exceptions:

- ▣ - If subject to OMB Circular A-133 must be audited annually
 - Greater than \$500,000 in federal funds expended in any one calendar year
- If required by debt covenants may be subject to annual audit
- Township election of an annual audit
- Anytime at the Auditor of State's own initiative



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "HOW"

Audit Process – Step 1

Initial Notice

- Initial contact will include time frame of Audit
- Provides a list of reports & other records needed
- Requests information from you regarding filing of financial statement, changes in client personnel or contact information.



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

**The Audit Process
"HOW"**

Audit Process – Step 2

- Preliminary meeting with audit team & client
- Planning the Audit
 - Staff assignments
 - Estimated fieldwork dates
 - Issues of which we have become aware of
 - List of client records





Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

**The Audit Process
"HOW"**

Audit Process – Step 3

Audit team gathers information on accounting system and controls

- Preliminary understanding of internal control structure for planning the audit
- Obtain understanding through inquiry & observation
 - Accounting system
 - Accounting control (application & monitoring)
 - Compliance Controls



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

**The Audit Process
"HOW"**

Audit Process – Step 4



Meeting with client to discuss audit costs and scope of the audit (Engagement Letter)

- Addressed to the head of governing body
- Issued soon after obtaining understanding of client
- Purpose is to establish an understanding with the client responsibilities, AOS responsibilities, terms of engagement, & fees.



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

**The Audit Process
"HOW"**

- Audit Process – Step 1-4
 - How long will this take?
 - Depending on the audit teams familiarity with the client these items all may take place off site and be conducted over the phone prior to the audit fieldwork commencing
 - If conducted on site at the beginning of fieldwork they will be conducted the first day, with an engagement letter presented after management approval of the audit team's plan

 Ohio Auditor of State
Dave Yost www.ohioauditor.gov

Required Communications

- Engagement Letter
 - Breaks out "Our Responsibilities" and "Your Responsibilities" for various aspects of the audit
- Planning Meeting Agenda
 - May be informal

 Ohio Auditor of State
Dave Yost www.ohioauditor.gov

Auditee Responsibilities

General highpoints that are outlined in the engagement letter:

- Provide access to all information that is relevant to preparing and fairly presenting the financial statements such as records and documents
- Provide all requested records in a timely manner
- Provide access to individuals the auditors deem relevant to discuss audit evidence
- Designing your own internal control structure
- Knowledge of compliance requirements to which you are subject

 Ohio Auditor of State
Dave Yost www.ohioauditor.gov

Auditee Responsibilities (Continued)

- Identifying and communicating any previous audits or studies that were conducted on the Township
- Reporting any fraud or illegal acts you are aware of
- Designing corrective actions and taking steps to remedy and findings that may be presented
- Identifying any service organizations you may utilize
- Attesting to the items provided under audit at the conclusion of the engagement



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "HOW"



Audit Process – Step 5

Test controls

Determine amount of substantive testing

Including items such as:

- Taxes
- Intergovernmental Receipts (through County or State)
- Charge for Service Receipts
- Fines, Fees, and Permits Receipts
- Payroll Disbursements
- Vouchered Non-Payroll Disbursements

Do you look at everything?

- No - items are often sampled and not reviewed 100%



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "HOW"

Audit Process – Step 6

Perform Substantive & Compliance procedures

- Perform testing on all areas deemed material
- Perform testing on relevant related laws and regulations (ORC, OAC, contracts, debt agreements, etc.)
- Communication of findings (throughout audit process)
 - Adjustments (may require posting to your system)
 - Citations / Recommendations



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "HOW"



- Audit Process – Step 7
Report process
 - Receive representation letter from Township management
 - Prepare draft report and discuss at post audit conference
 - Discuss report and findings in a semi-formal manner & allow comments (post audit)
 - Independent Auditor's Report (F.S. Opinion)
 - GAGAS Report (internal control & compliance)
 - A-133 Report (federal controls & compliance)

Ohio Auditor of State
Dave Yost www.ohioauditor.gov

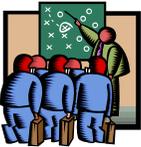
Independent Accountant Report Financial Statement Opinions

- Unqualified
- Qualified
- Disclaimer
- Adverse

Ohio Auditor of State
Dave Yost www.ohioauditor.gov

Compliance and Controls Letter

- GAGAS (Generally Accepted Government Auditing Standards) Report
 - Two Paragraphs
 - Compliance
 - Controls
 - Schedule of Findings
- Management Letter
 - For immaterial instances



Ohio Auditor of State
Dave Yost www.ohioauditor.gov

Communicating Internal Control Related Matters

- Control Deficiency
 - Design
 - Operation
- Significant Deficiency
 - Likelihood of a misstatement is more than remote
 - Amount of misstatement is more than inconsequential
- Material Weakness
 - Likelihood of a misstatement is more than remote
 - Amount of misstatement is material
- Inconsequential



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Communicating Internal Control Related Matters (continued)

- Auditee responses to audit findings
 - Include "Officials' Response" after each report finding
 - From the highest level official knowledgeable of the circumstances surrounding the finding
- Schedule of Prior Audit Findings



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

The Audit Process "HOW"

- Audit Process – Step 8
 - Issuance of Report
 - Released reports can be found on the AOS Web site - www.auditor.state.oh.us
 - main page, audit search, complete required information



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Getting Ready



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Board Minutes

- Ensure all minutes are recorded and are approved
- Ensure all ordinances or resolutions are recorded with the minutes or are easily accessible
- Commonly encountered problems:
 - Incomplete minute records
 - Failure to document formal actions / decisions



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Policies & Procedures

Ensure formal policies have been adopted over areas such as:

- Travel
- Reimbursements
- Cell phones
- Gifts
- Proper Public Purpose
- Credit card
- Government owned vehicles



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Policies & Procedures

- Have employees read and sign policies for acknowledgment of receiving them.
- Best Practices – example policies
<http://www.ohioauditor.gov/enews/bp/default.htm>



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Reconciliations

Ensure books are reconciled to the bank records

- Any unreconciled differences should be investigated immediately with the month end and should be adjusted after they are figured out
 - Do not allow unreconciled conditions to move forward from month to month
- Ensure reconciliation includes all accounts and attach bank statements to the reconciliation
- Ensure any reconciling factors are detailed out and are supported with supporting documentation attached
 - Never plug reconciling factors



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Receipts

Maintain source documentation

- Remittances/Settlement Sheets/Permits/etc.
 Attach supporting documentation to pay-ins/receipts
- File vouchers in numeric order.

Note: sloppy or inaccurate filing can result in additional time for auditors and additional cost for the Township



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Disbursements



Maintain source documentation

- Vouchers/Invoices: Attach invoices to vouchers as supporting documentation for disbursements.
- File vouchers in numeric order. Indicate approval for payment on invoice and mark invoice and voucher paid to reduce chances of duplicate payment.

Note: sloppy or inaccurate filing can result in additional time for auditors and additional cost for the Township

Board should review and approve vouchers for payment



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Disbursements



If there are questions on the legality of a disbursement

- Obtain written opinion from legal council on grey areas (i.e., proper public purpose).
- Obtain at the time the disbursement is being considered before it is entered into
- Illegal disbursements can result in findings for recovery



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Personnel/Payroll



- Develop policy and maintain leave records for employees
- Ensure all compensation matters are approved in the minutes
- Ensure a personnel file is maintained on all employees with all relevant payroll and withholding information
- Ensure all fringe benefits are approved and added to W-2s (personal use of autos, cell phones, life insurance) -

Best Practices Spring 2006 Tips - Taxable fringe benefits



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

I Need Help!!!

Training: Traveling Clerk Program

Non-audit services:

- Preparation of financial statements and notes to the financial statements
- Reconciliation services

Who can provide non-audit services:

- Audit staff (limited with independence standards)
- AOS LGS division
- Other IPA firms



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Summary



- Auditor and Client have specific responsibilities
- The audit process is well-defined, with a focus on "on-going" communication
- The best way to get ready for an audit is to implement good accounting, record-keeping and control practices year-round - *this will benefit you in managing your finances!*



Ohio Auditor of State
Dave Yost

www.ohioauditor.gov

Audit Division

Columbus Region

88 East Broad Street
Columbus, Ohio 43215

Douglas G. Ferguson

Presenter Phone: (800) 443-9275
E-mail: contactus@auditor.state.oh.us



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us



Dave Yost
Auditor of State

88 East Broad Street
Columbus, Ohio 43215

Phone: (800) 282-0370 Fax: (614) 466-4490
E-mail: contactus@auditor.state.oh.us

www.auditor.state.oh.us
