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**2015 LGOC
AUDIT UPDATE**

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Agenda

- Bulletin Update
- OCS Update
- Hot Topics
 - Independence
 - Gasb 54 fund balance
 - Other



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Bulletin 2014-001

Allocating Premiums from Local Government Bond and Note Sales

- Effective for any bonds or notes issued on or after July 1, 2014
- ORC requires premiums be applied to bond retirement funds
- Project fund = ffa



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Bulletin 2014-002

County and Independent Agricultural Societies
Sale of Intoxicating Beverages



- Constitution and bylaws must permit the expenditure;
- The moneys to be expended are not required to be used for other purposes; and
- The expenditure is reasonable



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Bulletin 2014-003

Alcoholic Beverages Purchased for Resale
at Public Events

- Valid permit Ohio Div. of Liquor Control
- Complied with the terms of permit
- Purchased solely for resale
- The expenditure is reasonable
- Proceeds applied per statute



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Bulletin 2014-004

Telephone ("Tele") Town Hall Meetings

Safe Harbor

- Policies and procedures
- General meeting procedures (agenda, minutes, notice, etc.)
- Policies addressing how they will manage discussion
- Topic selection evaluation process

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... government, rul



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**IMPLEMENTATION GUIDE FOR LEGAL COMPLIANCE
AUDITING IN OHIO**

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**Implementation
Guide - Highlights**



Direct Laws are in Chapter 1

**These are laws that could materially impact
the financial statements and/or disclosures.**



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2015 Chapter 1 Changes

- **5705.41(D) Restrictions on expending money** – clarified testing procedures related to testing year end encumbrances and certifications
- **Electric kilowatt-hour tax** - Moved to chapter 1 from chapter 2 because it is often directly material



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2015 Chapter 1 Changes

- **Annual Financial Reporting** – Significant changes to guidance and testing
- **Health Care Self Insurance** – Updated guidance regarding applicability to Counties and Townships



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Implementation Guide - Highlights



Indirect Laws and Mandated Testing is in Chapter 2

Indirect Laws - If these laws aren't complied with they could cause a material liability or shut down an entity.

Mandated Laws - The ORC requires AOS to test certain laws.

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2015 Chapter 2 Changes



- **Deposits and Investments (Various Entity Types)** – Additional training requirements
- **Additional Investments (Subdivision other than Counties)** – Significant changes to guidance and testing
- **Force Accounts** – Significant guidance added

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Implementation Guide - Highlights



Stewardship Laws are in Chapter 3

In addition to the “direct”, “indirect”, and “mandated compliance tests” discussed above the Auditor of State has identified laws of significant public interest due to stewardship considerations. Citizens and public officials want and need to know whether governments are handling their funds properly and complying with laws and regulations. Public officials entrusted with public resources are responsible for complying with those laws and regulations.

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2015 Chapter 3 Changes

- **Meeting of public bodies** – Added guidance and testing procedure for telephone meetings
- **Reimbursement of Insurance Premiums** – Added tax guidance



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Implementation Guide - Highlights



*However, the categorization of a requirement in Chapter 2 or 3, or even its omission from this Supplement 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.*

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Why an Audit?

- Provide accountability and transparency
 - Objective analysis and information
- 2011 GAS revision provides framework
 - General Standards
 - Independence, Professional Judgment, Competence, Quality Control and Assurance



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Independence Threats

3.14

- *Self interest threat*
 - Financial or other benefit influences auditor's judgment / behavior
 - **Revolving door** would be self interest threat (also an Ohio ethics violation). Example:
 - Brad audits City X 2010 statements in 2011
 - Brad resigns from audit firm in 2011
 - City X hires Brad in 2011
- *Self review threat*
 - Similar to the 2003 & 2007 overarching principle:
 - Auditing your own **nonaudit service**



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Nonaudit Service



- Preparing financial statements
- Preparing the notes
- Preparing the federal schedule
- Reconciling the entity
- Proposing a lot of adjustments

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Independence Threats



- **Bias threat**
 - political, ideological, social, or other convictions affect an auditor's judgment
- **Familiarity threat**
 - Long or close relationship with auditee affects auditor's judgment
 - Ideally reassign staff periodically
 - Includes audits of close family members
 - If their position significantly influences the *subject matter of the audit*

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Independence Threats

- **Undue Influence Threat**
 - *Example:* auditee unduly restricts time available to complete audit
 - Auditee threatens to hire a new auditor
- **Management participation threat**
 - Substantially the same as the 2003 & 2007 overarching principle– cannot manage the entity and then audit it

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Independence Threats

- **Structural threat**
 - Relates to the AOS' organizational independence
 - i.e. how AOS fits into "structure" of State Government
 - AOS is independent to audit the State because AOS is separately elected (3.29(a))
 - Probably N/A to IPA firms



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Examples of Independence Safeguards

- Assigning staff not involved with audit to review audit work 3.17(c)
 - Maybe includes concurring partner reviews?
 - Chief auditor at AOS
 - Because partner did not perform fieldwork
 - Not mandatory
 - Might help address familiarity threat?
- Assigning another audit organization to perform the impaired part of audit 3.17(b)
 - For example: AOS re: UAN



Engagement Period Independence

3.05

We must be independent:

- For any period an audit covers
 - One or two fiscal year audit period, for example
- The professional engagement period
 - For recurring audits, could cover many years
 - Ends via notification of auditor or auditee
 - or by the issuance of final report, whichever is later
 - So, engagement period does not end with the issuance of a report then recommence with the following year's audit



Engagement Period Independence

3.05

• For example:

- If auditor designs accounting system, perhaps can't audit statements as long as system is used
- Can reestablish independence if another firm audits the statements prepared from the system (3.43)
 - One independent audit would suffice
 - Assuming other auditor does not report multiple control deficiencies / scope impairment due to inadequacy of accounting system



Independence Changes Affecting AOS

- AOS can no longer avoid a legislatively-mandated impairment by merely describing it in opinion scope ¶
 - UAN
 - Fiscal emergencies for
 - Cities
 - Counties
 - Villages



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Fiscal Emergencies

- If LGS is performing management functions subject to the scope of our audit—
 - We will contract audit to IPA
 - Rarely applies to schools, because LGS' role usually doesn't include management functions



Emergency

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Nonaudit Services

3.33 – 3.58

- Retaining independence still requires evaluating the 2003 / 2007 “safeguards”
 - GAGAS borrowed from AICPA Ethics Interp. 101-3
- Per 101-3 and 3.34 -- .37, management must
 - Make all management decisions
 - Designate individual to oversee
 - Evaluate adequacy of results
 - Accept responsibility for the service



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Nonaudit Services

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Regarding the "evaluator":

- "The individual is not required to possess the expertise to perform or reperform the services."
- But, auditor should evaluate / document whether the evaluator's "SKE" are sufficient to meaningfully assume responsibility for the nonaudit service
 - Skills
 - Knowledge
 - Experience



Training
Knowledge
useful ability
backbone of co
quired for a tr
-day

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Auditing Your Own Firm's Compilations

- Cash to accrual conversions are a nonaudit service (3.40)
 - Use conceptual framework
 - But: can still "audit your own work" if mgt. retains responsibility & reviews, etc. (3.34 & 3.37)
 - So the 2011 YB doesn't meaningfully change analysis for "compilation threats"



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Adjustment Independence

- When do the firm become the au



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GASB Statement No. 54

2011

- Issued March 11, 2009
- Effective for periods beginning after June 15, 2010
- Villages and townships financial statements for the year ending December 31, 2011, will incorporate these requirements.
- This GASB will be for both OCBOA and Regulatory Basis filers.

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GASB Statement No. 54



- The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

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GASB Statement No. 54

New fund balance classifications are:

- Non-spendable
- Restricted
- Committed
- Assigned
- Unassigned



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Non-spendable

- Legally/contractually maintained
- Principal of Permanent Funds
- Unclaimed moneys fund
- Cemetery Endowment
- This classification does not include reserve balance accounts/budget stabilization



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AOS Bulletin – 2011-004

- Nonspendable Fund Balance
 - Amounts that cannot be spent due to constraints
 - Townships and Villages
 - Unclaimed Monies Fund
 - Endowments Fund



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Restricted

- Constraints placed on the use of resources are either
- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or
- Imposed by law through constitutional provisions (Charters) or enabling legislation.



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Restricted Fund Balance

- Enabling legislation
 - Authorizes a government to assess, levy, charge, or otherwise mandate payment of resources
 - Includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation



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Legal Enforceability

- Compelled by an external to use resources created by enabling legislation only for the purposes specified by the legislation.
- Legal enforcement exists upon receipt of resources



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Enabling Legislation Example



- Ordinance passed that enacts a \$1,000 fee per lot (impact fee)
- Park development
- No State statute allows for this fee. The Village's legal Counsel stated that "Home Rule" provides the authority to enact this fee.

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AOS Bulletin – 2011-004

- Restricted Fund Balance
 - Amounts externally imposed or imposed by enabling legislation
 - Townships
 - Gasoline Tax Fund
 - Fire District Fund
 - Villages
 - Police and Fire Pension Fund
 - Drug Law Enforcement Fund



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Restricted Fund Balance

- Voted property tax levy not for General Fund operations
- Permissive MVL fees
- Gas taxes and mvl fees
- Most grant proceeds
- Voted income tax levy for a specific purpose (see handout 1)



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Income Tax



- Unvoted or Voted
- General operations – Unassigned General fund
- Purpose identified – Restricted fund balance
 - Debt Service, Capital Projects or Special Revenue
 - Purpose must be part of original ordinance enacting the tax or the specific purpose is voted
- Allocations
 - Committed Fund Balance
 - Debt Service, Capital Projects or Special Revenue



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Committed Fund Balance

- Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action at the government's highest level - council or board of trustees - of decision-making authority
- Constraints are imposed by the government separate from the authorization to raise the revenue
- Committed resources/amounts are not considered to be legally enforceable as with restricted.
- Committed fund balance also includes contractual obligations to the extent that existing resources in the fund have been specifically committed (encumbered) for use in satisfying those contractual requirements.

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Committed Fund Balance

- Constraint can be removed or changed only by taking the same highest level action
- Action to constrain resources should occur prior to end of year, though the exact amount may be determined subsequently
- Ability to transfer resources by court order is not the same action of the governing body that created the constraint.



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Committed Fund Balance

- Committed resources are generally unrestricted revenues authorized by state statute, ordinance, or resolution for which the government may commit the use of the revenue for a specific purpose.
- Membership or entrance fees to a swimming pool to be used for swimming pool operations
- Recreation program fees to be used to recreation program expenses
- Cemetery charges for grave openings, burials, foundations, etc. To be used for cemetery operations

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Committed Fund Balance

- Court fines, forfeitures, and costs cannot be committed by governing board as those revenues are directed to specific funds or the general fund by State statute



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AOS Bulletin – 2011-004

- Committed Fund Balance
 - Amounts constrained through legislative action (resolution or ordinance constraining revenue)
 - Townships and Villages
 - Compensated Absences Fund
 - Underground Storage Tanks Fund



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Assigned Fund Balance

- Amounts intended to be used for specific purposes
- Intent is expressed by
 - Governing body, or
 - High-level body or individual authorized by the governing body (Service Director - Cemeteries)
- Lowest classification for all governmental funds, except general fund and funds with deficits
- Funds created under Section 5705.13(C), R.C.
- Ordinance creating the fund but there is not a constraint on the revenue received



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AOS Bulletin – 2011-004

- Assigned Fund Balance
 - Amounts constrained by intent (fund established to track activity)
 - Townships and Villages
 - Funds generated with General Fund transfers



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Unassigned Fund Balance

- Unassigned fund balance is the residual classification for the general fund
- General fund should be the only fund that reports a positive unassigned fund balance a positive unassigned fund balance
- Negative fund balances in other governmental funds are report as negative unassigned fund balance

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AOS Bulletin – 2011-004

- Unassigned Fund Balance
 - General fund
 - Any fund with a deficit balance



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Fund Balance Classification

- What is the main revenue source of the fund?
- Is there an external restriction?
 - Grant Agreements
 - ORC
 - Ballot Language
- Does State law allow me to assess the fee?
- Has the governing body passed an ordinance/resolution placing a constraint on the revenue?
- See handout 2

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Relationship of Net Assets to Fund Balance

<u>Net Assets</u>	<u>Fund Balance</u>
Restricted	Non-Spendable
	Restricted
Fund Balance	Committed
	Assigned
	Unassigned

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True or False

- GASB 54 is applies to all fund types (gov, prop, and fid)?



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Budget Stabilization Arrangements

- Stabilization amounts should be reported in the general fund as restricted or committed if:
 - they meet the criteria set forth restricted or committed based on the source of the constraint on their use.
- Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed should be reported as unassigned in the general fund.
- A stabilization arrangement would satisfy the criteria to be reported as a separate special revenue fund only if the resources derived are from a specific restricted or committed revenue source.

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Ohio's Local Government Budget Stabilization

- Authorized by Section 5705.13(A), Revised Code
- Budget reserve is created from the unencumbered fund balance – no specific revenue source
- Limit is 5 percent of the prior year revenue
- May exist in other operating funds
- Ohio's budget stabilization should be reported as unassigned fund balance in the general fund and NO budget stabilization should be reported in other funds.

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Encumbrances



- Encumbrances are now part of your restricted, committed, and assigned categories. They no longer have their own line item.
- Capital projects funds with an assigned balance
 - Look for Council/Trustee action approving the contract that generated the purchase order.
 - If so, move the encumbrance to committed fund balance.
 - If not, leave in assigned fund balance.
- General Fund
 - Look for Council/Trustee action approving the contract that generated the purchase order.
 - If so, move the encumbrance to committed fund balance.
 - If not, move the encumbrance to assigned fund balance.

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Note Disclosures

Governments should disclose the following about their fund balance classification policies and procedures:

- For *committed* fund balance:
 - the government's highest level of decision-making authority and
 - the formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment
- For *assigned* fund balance:
 - the body or official authorized to assign amounts to a specific purpose and
 - the policy established by the governing body pursuant to which that authorization is given

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Note Disclosures

Government's policy regarding order of spending for:

- Restricted and unrestricted fund balance
 - Should be consistent with net asset policy
- Committed, assigned, and unassigned fund balance (new)
- Presentation in the notes of the detailed constraints within the classifications of fund balance

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Additional Information

- AOS Bulletin 2011-004
- <https://ohioauditor.gov/publications/bulletins/2011.html>

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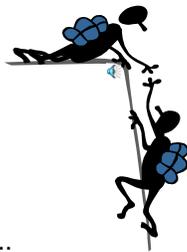
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GASB 68

UNDER CONSTRUCTION
CONTENT WILL BE AVAILABLE SOON



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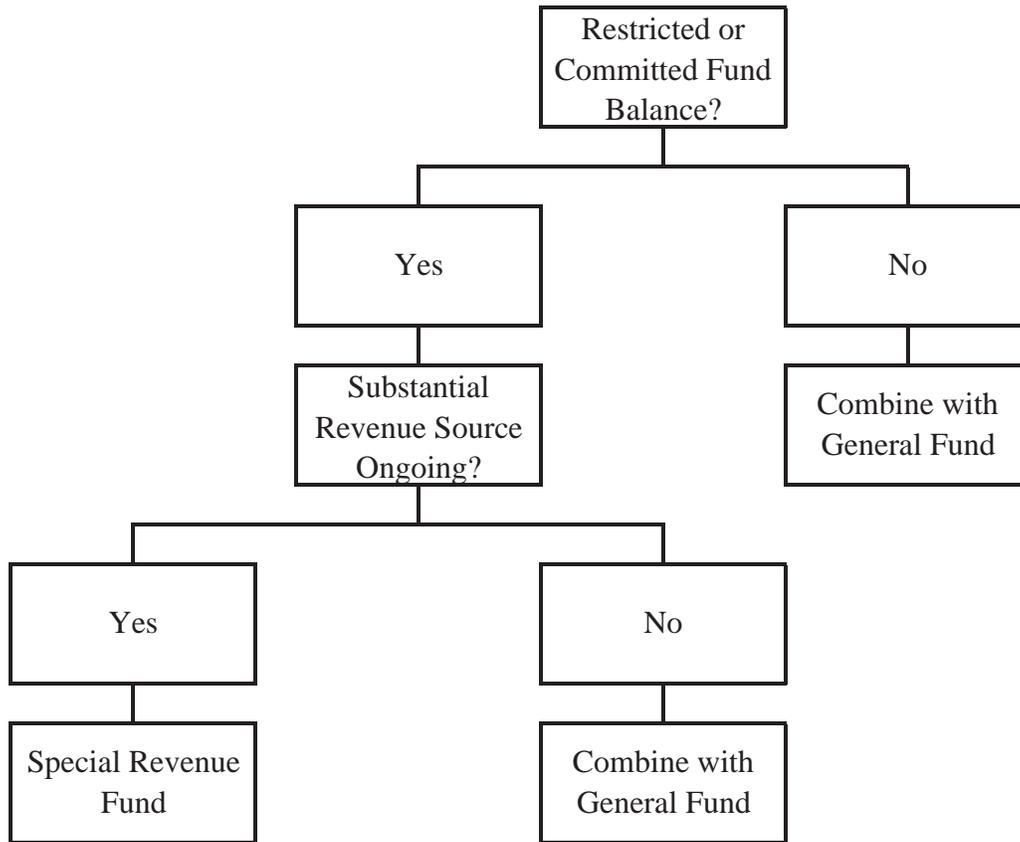
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Flowchart for determining Special Revenue Fund Type



Income Tax Scenarios

Type of Income Tax	Source of Constraint	Type of Constraint	Classification	Fund Type
Up to 1 Percent without voter approval	Section 718.01, ORC	None	Unassigned	General
Up to 1 Percent for a specific purpose without voter approval	Section 718.01, ORC <i>Restriction must be part of the original ordinance</i>	Imposed through enabling legislation	Restricted	Special Revenue or Capital Projects
Voted tax, unrestricted	Section 718.01, ORC	None	Unassigned	General
Voted tax, specific purpose	Section 718.01(C), ORC	Externally imposed by Voters	Restricted	Special Revenue or Capital Projects
Voted or unvoted tax Annual ordinance allocating tax	Section 718.01, ORC Ordinance No. _____	None Imposed by Ordinance	Unassigned Committed	General Special Revenue or Capital Projects