

Ohio Auditor of State

Top 10 Audit Comments

Presented by:  
Ashley Perry, MBA

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Agenda

- Types of Audit Comments
- Common comments

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Terminology

- GAGAS
  - Generally Accepted Government Auditing Standards
  - Comments affecting the financial statements
  - aka: the Yellow Book
- Single Audit
  - The Single Audit Act of 1984 (amended in 1996) – applicable if entity expends \$750,000 of federal dollars in 1 year.
  - Comments affecting federal programs
- Noncompliance = Citation
- Recommendation = Internal Control Deficiency

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## Levels of Audit Comments

- Report Level
- Management Level
- Verbal

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## Types of Audit Comments



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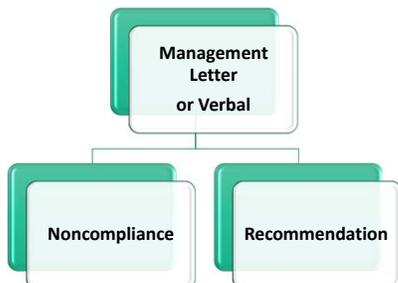
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## Types of Audit Comments



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## Noncompliance Examples

Federal Code of Regulations (CFR)	Grant Agreement	United States Code (USC)
Federal & State Court Decisions	Ohio Administrative Code (OAC)	Ohio Revised Code (ORC)
Ohio Constitution	Ohio Ethics Commission Opinions	Local Ordinance, Policy, Resolution, etc.

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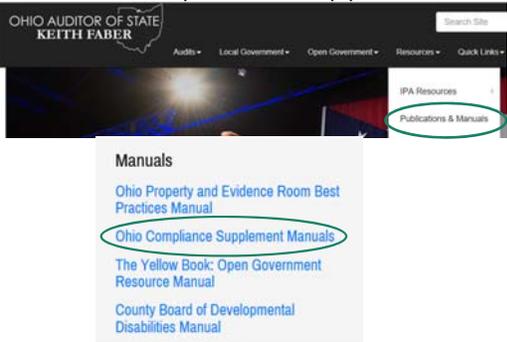
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## Ohio Compliance Supplement



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## Ohio Compliance Supplement

### Ohio Compliance Supplement Manuals

**2018**

- [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 \(Microsoft Word\)](#)

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## Example Internal Control Comment

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2016-001

Material Weakness - Fund Balance Classification

Governmental Accounting Standards Board (GASB) Statement No. 54 established criteria for reporting governmental fund balances based on constraints placed upon the use of resources reported in the governmental funds. The five classifications are nonspendable, restricted, committed, assigned, and unassigned.

Assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed such as encumbrance within the general fund. When an appropriation measure is adopted for the subsequent year and a portion of existing fund balance is included as a budgetary resource (appropriated for general fund uses or appropriations exceed estimated receipts), then that portion of fund balance should be classified as assigned.

The 2017 appropriations approved of \$127,818 exceeded the 2017 Estimated Revenues of \$91,279 by \$36,539. The 2016 appropriations of \$121,642 exceeded the 2016 Estimated Revenues of \$86,189 by \$35,453. \$36,339 and \$35,503, at December 31, 2016 and 2015, respectively, should have been classified as assigned due to using the carryover fund balance to cover the remaining amount of appropriations.

Committed fund balances include amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (such as an ordinance or resolution).

The Board of Trustees approved using inside millage for road and bridge improvements and maintenance purposes. These amounts have been stated into the Road and Bridge Fund. The Township reported the Road and Bridge fund balance of \$68,753 at December 31, 2015 and \$118,065 at December 31, 2016 as "restricted" instead of "committed". Also, at December 31, 2015 and 2016, the Township reported the Capital Projects fund balance of \$97,561 as "restricted" instead of "committed". This should be committed due to the transfers from General Fund.

A final review of the financials may have detected this error. Adjustments for 2016 and 2015 were recorded in the accompanying financial statements to correct these errors.

In order to ensure the Township's governmental fund balances are reported in accordance with GASB 54,

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## Common Noncompliance Citations

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## Common Noncompliance Comment

ORC 5705.41 (D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the Treasurer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only the subdivision's fiscal officer. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

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Common Noncompliance Comment

**Ohio Rev. Code § 5705.41(B)** states, in part, that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated.

Total disbursements and outstanding commitments exceeded appropriations in the Water Fund by \$45,557 in 2016. As a result, there was an increased risk of the Village incurring deficit cash balances.

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Common Noncompliance Comment

**Ohio Revised Code §5705.39** states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals.

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Common Noncompliance Comment

Ohio Revised Code 5705.38 (A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1

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### Common Noncompliance Comment

Ohio Revised Code Section 5705.36(A)(3) states upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess.

Ohio Revised Code Section 5705.36(A)(4) states upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

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### Common Noncompliance Comment

5705.10 (C) requires that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

In addition to property tax monies being assessed and collected for the levies, the State of Ohio reimbursed taxing subdivisions for homestead and rollback. These revenues were derived and allocated upon property tax levies.

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### Sample Property Tax Settlement

	TRF#	DEPT	REAL	FEES-PROP	TOTAL	AP/FISC	RECEIPTS	NET-OF-FEES	ROLLBACK	2.0A-0.09	HOMESTEAD
IRE & R.M.S.	1.00		3042.76	306.10	3348.86	34.27	3308.99	532.87	46.75	214.04	
2016/	1.00000000				32.04	0					
IRE COMMENT	2.00		2849.17	413.20	3462.37	34.84	3420.01	499.23	43.76	200.74	
16/	1.00000000				30.32	0					
IRE COMMENT	2.00		3009.28	1101.96	4111.24	186.98	3924.26	2646.43	231.84	1063.17	
16/	1.00000000				140.73	0					
1.6 LEVIES			20,989.19	2,920.24	23,909.43	283.09	22,726.18	3,478.53	322.34	1,477.81	
					0	11.18					

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### Common Noncompliance Comment

Ohio Rev. Code Section 135.22 states that annually a treasurer shall complete continuing education programs to enhance the background and working knowledge of investments, cash management, and ethics, unless the treasurer provides annually to the Auditor of State a notice of exemption. The notice shall be certified by the Treasurer of State and shall provide that the treasurer is not subject to the continuing education requirements.

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### Common Noncompliance Comment

Section 117.38, Ohio Revised Code requires cash basis entities to file complete annual reports via the Hinkle System within 60 days of the fiscal year end. To be considered complete, the regulatory filing must contain a statement or statements of receipts, disbursements and changes in fund balance – governmental, proprietary and fiduciary fund types and notes to the basic financial statements.

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### Annual Financial Statement Filing

For regulatory entities:

<http://www.ohioauditor.gov/references/shells/regulatory.html>

For OCBOA entities:

<http://www.ohioauditor.gov/references/shells/gasb34ocboa.html>

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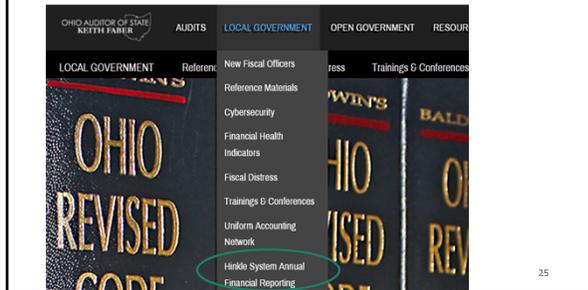
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## Annual Financial Statement Filing

On our web page: <http://www.ohioauditor.gov/>



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## Annual Financial Statement Filing



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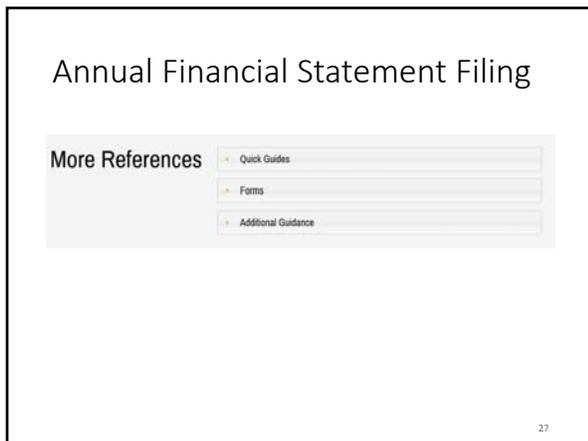
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## Annual Financial Statement Filing



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**Common Internal Control Issues**

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**Internal Control Comment**

Charges for Services – Water & Sewer Accountability Deficiency

- o Service Organization Issues
- o Proper rates
- o Unauthorized account adjustments

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**Internal Control Comment**

Prior to closing out the financial records each month, the bank account balances should be reconciled to the combined fund balances. This procedure is an important method of detecting errors in the financial records and bank account records. After this procedure is completed any errors found should be immediately corrected, the financial records closed, and month end financial information generated by the Clerk/Treasurer.

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## Internal Control Comment

### Financial Reporting

The Municipality should have procedures and controls in place to prevent and detect errors in the financial statements and accounting records to help assure that the information provided to the users is complete and accurate. The following errors were identified in the accounting records and/or financial statements....

See the AOS website at:  
<http://www.ohioauditor.gov/publications.html>  
For the Ohio Village Officer's Handbook

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## Internal Control Comment

The Village did not have a control in place to ensure that amended certificates as authorized by Council reconciled to estimated resources that were posted to the accounting system. This resulted in incorrect amounts being posted to the accounting system for the General Fund 2017.

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## Runners Up

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## Noncompliance

**Ohio Rev. Code § 121.22(C)** states in part the minutes of a regular or special meeting of the Village shall be promptly prepared, filed and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions held in executive sessions.

During the period, the Village did not maintain minutes that were able to accurately reflect the actions the Council took during its meetings. Information excluded from the minutes is comprised of the following:

- Approving bank reconciliations
- Approving salary schedules for four part time employees.
- Approving compensatory time disbursements

Not adequately maintaining a complete record of Village meetings can result in violations of the Sunshine Law and increase the risk of unallowable activity occurring.

The Village should develop additional procedures to help ensure all actions taken during meetings of public session are properly recorded in the meeting minutes.

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## Internal Control

### **Segregation of Duties:**

The small size of the Village's staff does not allow for an adequate segregation of duties; the Fiscal Officer must perform all accounting functions. It is therefore important that Council and the Finance Committee monitor financial activity closely.

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## Internal Control

### **Policy Deficiencies**

A policy manual is essential to assure that key areas of operations are fully documented (in written form) and understood by employees, management and elected officials. The Village did not have policies governing the following items which are utilized by the Village's employees during the course of their employment:

- Credit Card Policy
- Petty Cash Policy
- Prohibited Political Activities / Outside Employment Policy

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**Local Government Officials  
Conference**

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