

# Agenda

- Audit Terminology
- Types of Audit Comments
- Common comments



# Terminology

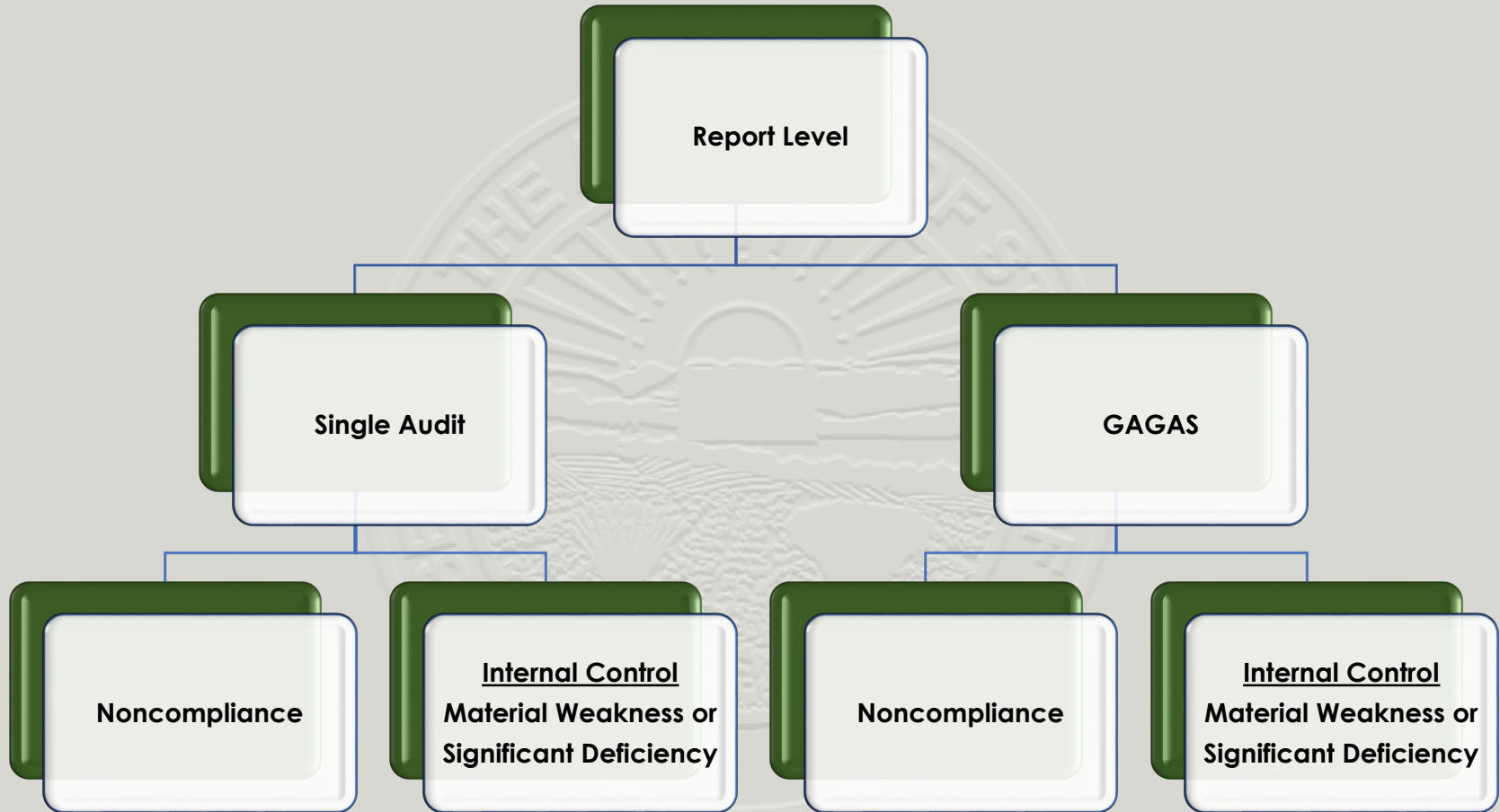
- GAGAS
  - Generally Accepted Government Auditing Standards
  - Comments affecting the financial statements
  - aka: the Yellow Book
- Single Audit
  - The Single Audit Act of 1984 (amended in 1996) – applicable if entity expends \$750,000 of federal dollars in 1 year.
  - Comments affecting federal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

# Levels of Audit Comments

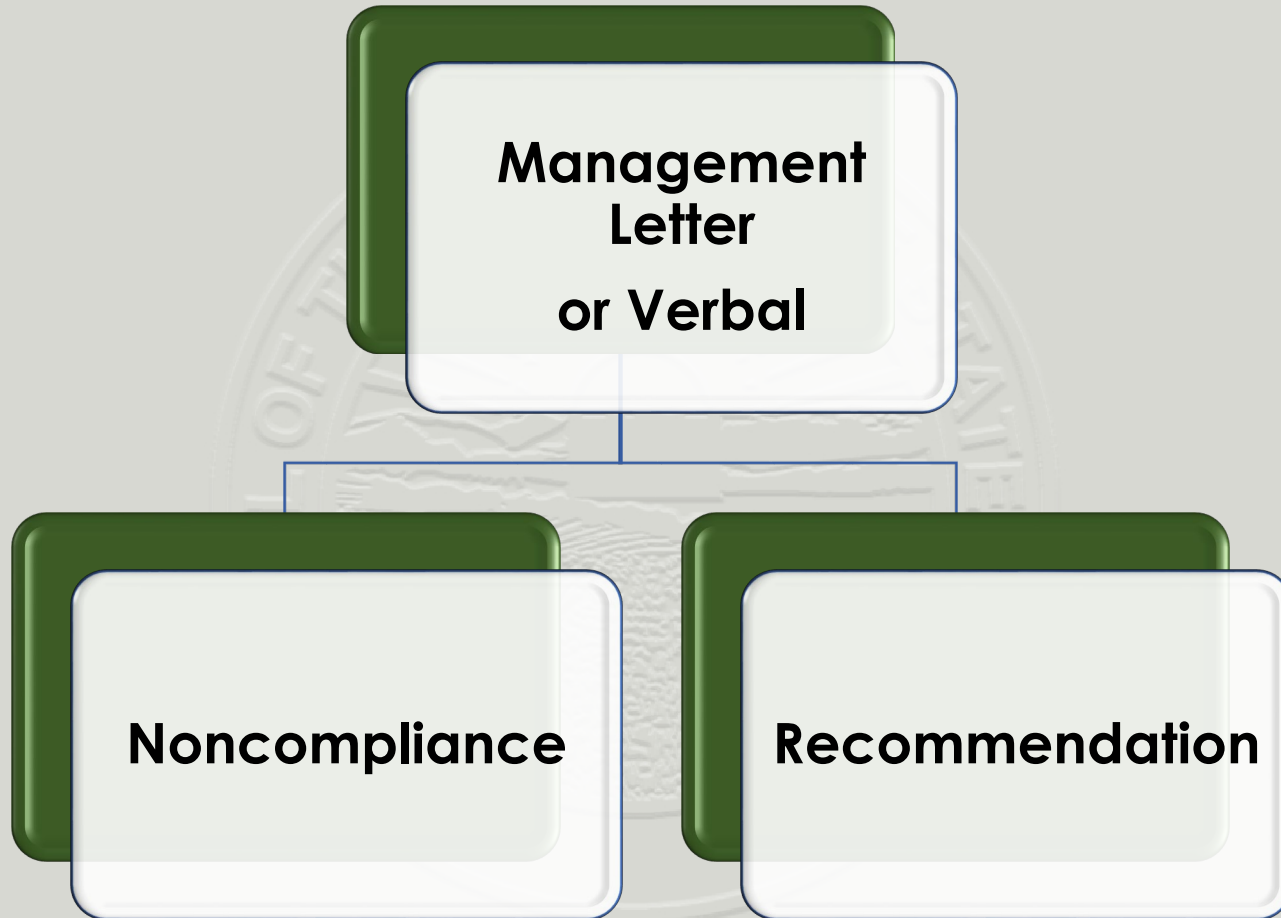
- Report Level
- Management Level
- Verbal



# Types of Audit Comments



# Types of Audit Comments



# Noncompliance Examples

**Federal Code of  
Regulations  
(CFR)**

**Grant  
Agreement**

**United States  
Code (USC)**

**Federal & State  
Court Decisions**

**Ohio  
Administrative  
Code (OAC)**

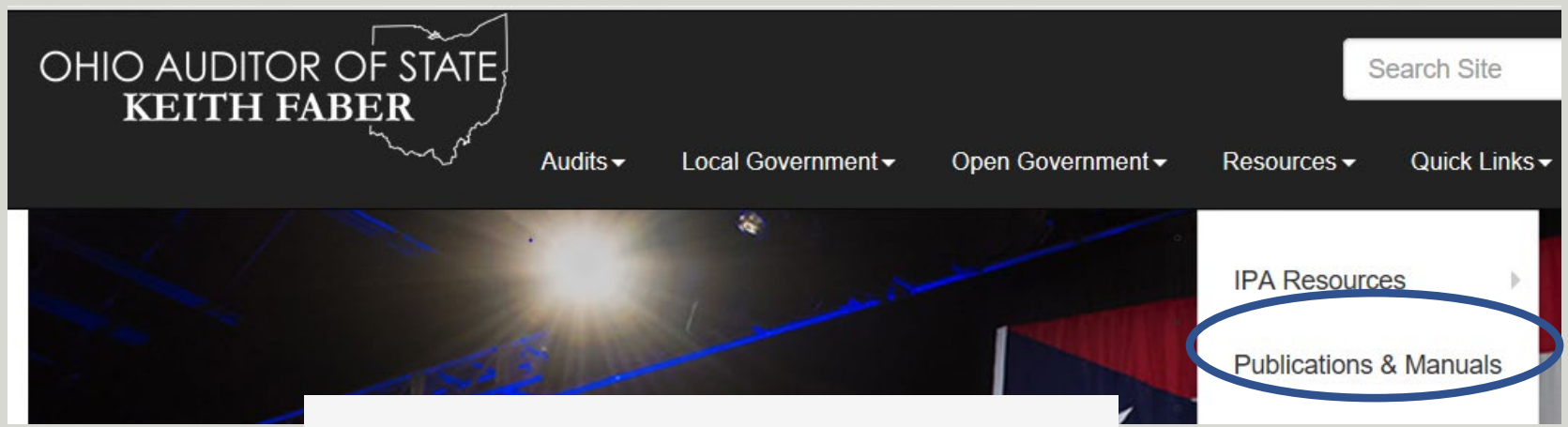
**Ohio Revised  
Code (ORC)**

**Ohio  
Constitution**

**Ohio Ethics  
Commission  
Opinions**

**Local  
Ordinance,  
Policy,  
Resolution, etc.**

# Ohio Compliance Supplement



- Manuals
  - Ohio Property and Evidence Room Best Practices Manual
  - Ohio Compliance Supplement Manuals
  - The Yellow Book: Open Government Resource Manual
  - County Board of Developmental Disabilities Manual

# Ohio Compliance Supplement

## 2019

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



# Ohio Compliance Supplement

***Matrix 1 lists the following entities:***

- Joint mental health districts/ADAMH Boards/Mental Health Boards
- Joint juvenile detention facilities
- Regional planning commissions
- Solid waste districts (Landfill)
- Joint township cemeteries or union cemeteries
- Union cemetery districts
- Airport authorities
- Family and children first councils (FCFC)
- Soil and water conservation districts
- Educational service centers (ESC)
- Conservancy districts

***Matrix 2 lists the following entities:***

- Libraries
- Councils of government (COG)
- Regional water & sewer districts
- General health districts/Board of Health
- Joint recreation districts
- Park districts

***Matrix 2 lists the following entities (Continued):***

- Community and technical colleges
- State colleges and universities
- Joint ambulance districts
- Joint fire districts
- Joint police districts
- Port authorities
- Agricultural societies<sup>32</sup>
- Community improvement and development corporations

***Matrix 3 includes a discussion of Home Rule Powers and lists the following entities:***

- Counties
- Townships
- Cities
- Villages
- Traditional school districts
- STEM/STEAM<sup>33</sup> schools
- Community schools

# Ohio Compliance Supplement

EXHIBIT 3

## Matrix 3

### Chapter 1: Direct Laws

Step No.	Requirement	County <sup>74</sup>	Township	City	Village	Traditional Schools	STEM Schools	Community School
1-1	ORC 5705.38: Annual appropriation measure	✓	✓	✓	✓	✓		
1-2	ORC 5705.41(D) and 5705.42: Restrictions on the appropriation/expending money including "Blanket" fiscal officer certificates	✓	✓	✓	✓	✓		
1-3	ORC 5705.40: Amending or supplementing appropriations; contingencies	✓	✓	✓	✓	✓		
1-4	ORC 5705.09: Establishing funds; and 5705.12: Permission to establish funds	✓	✓	✓	✓	✓		
1-5	Various ORC 5705 Sections, 5731.48 and 3315.20(A): Distributing revenue derived from tax levies, etc.	✓	✓	✓	✓	✓		
1-6	ORC 5705.05-.06 and 5705.14-16: Transfer of funds	✓	✓	✓	✓	✓		
1-7	AOS Bulletin 97-003 and various ORC 5705 Sections: Advances	✓	✓	✓	✓	✓		
1-8	ORC 5705.13 and 5705.132: Reserve balance accounts and funds	✓	✓	✓	✓	✓		
1-9	ORC 5101.144: County Children Services Fund	✓						

- Financial
- Performance
- Special
- Finding for Recovery
- Search Audits

<http://www.ohioauditor.gov>

## Audit Search

[Reports Released](#)

[F.A.Q.](#)

[Help](#)

[Request a Report](#)

Entity Name or Report Title:

Entity Type:

All Entity Types



Report Description:

All Report Types



County:

All Counties



Fiscal Year:

All Fiscal Years



Release Date:

All Release Months



All Release Years



Latest Release Date:

Findings for Recovery Only:

Search

Reset

# Example Noncompliance Citation

FINDING NUMBER 2017-002

## Noncompliance

Ohio Rev. Code § 5705.10(I) provides that money paid into any fund shall be used for the purpose for which it was established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

As of December 31, 2017, the Permissive Tax County Fund, had a negative fund balance of \$103,527.

During 2017, the City did not properly monitor fund balances, which resulted in the City spending monies that were not available for expenditure.

The City should closely monitor cash fund balances and expenditures to avoid deficit cash fund balances. Council should review the City's finances and formulate a plan for the elimination of deficit balances.

**Officials' Response:** Permissive County money was encumbered by the county but had not been received by the city before the end of the year. Other funds are being monitored to the best of our knowledge and kept from going in the red.

# Example Internal Control Comment

FINDING NUMBER 2017-004

## Material Weakness

Management is responsible for designing and implementing internal control policies and procedures to reasonably ensure specific financial objectives will be achieved. A well-designed system of internal control will include monitoring of financial reports and information by management and City Council in order to compensate for any lack of segregation of duties.

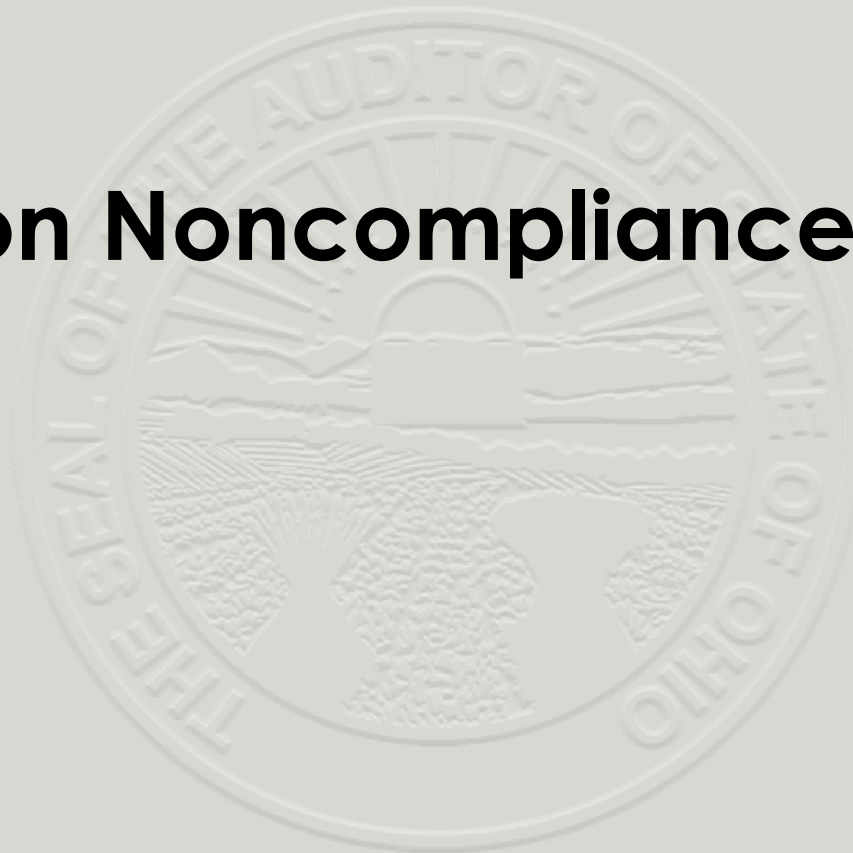
The results of our audit indicates a weakness in management's role to establish and maintain effective internal controls and to ensure and document the City is complying with legal requirements as evidenced by material weaknesses and significant deficiencies included in our report. The City's current procedures do not allow for adequate segregation of duties as employees perform roles in all accounting functions, including receipting, depositing, adjusting and disbursing City monies.

Failure to adequately monitor the activities of the City by management and City Council could result in errors or irregularities to occur and remain undetected.

Management and City Council should establish procedures and become more actively involved in monitoring financial activity at the City. City Council should be presented with a receipts ledger, payroll journal and check register monthly in order to adequately manage the City.

**Officials' Response:** This is currently being corrected and policies set to ensure the right procedures.

# Common Noncompliance Citations



# Common Noncompliance Citation

Ohio Rev. Code §117.38, requires cash basis entities to file complete annual reports via the Hinkle System within 60 days of the fiscal year end, while GAAP entities have 150 days. To be considered complete, the filing must contain all financial statements and notes, management's discussion and analysis (if applicable), and any other required supplemental information.

# 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>

**For GAAP entities:**

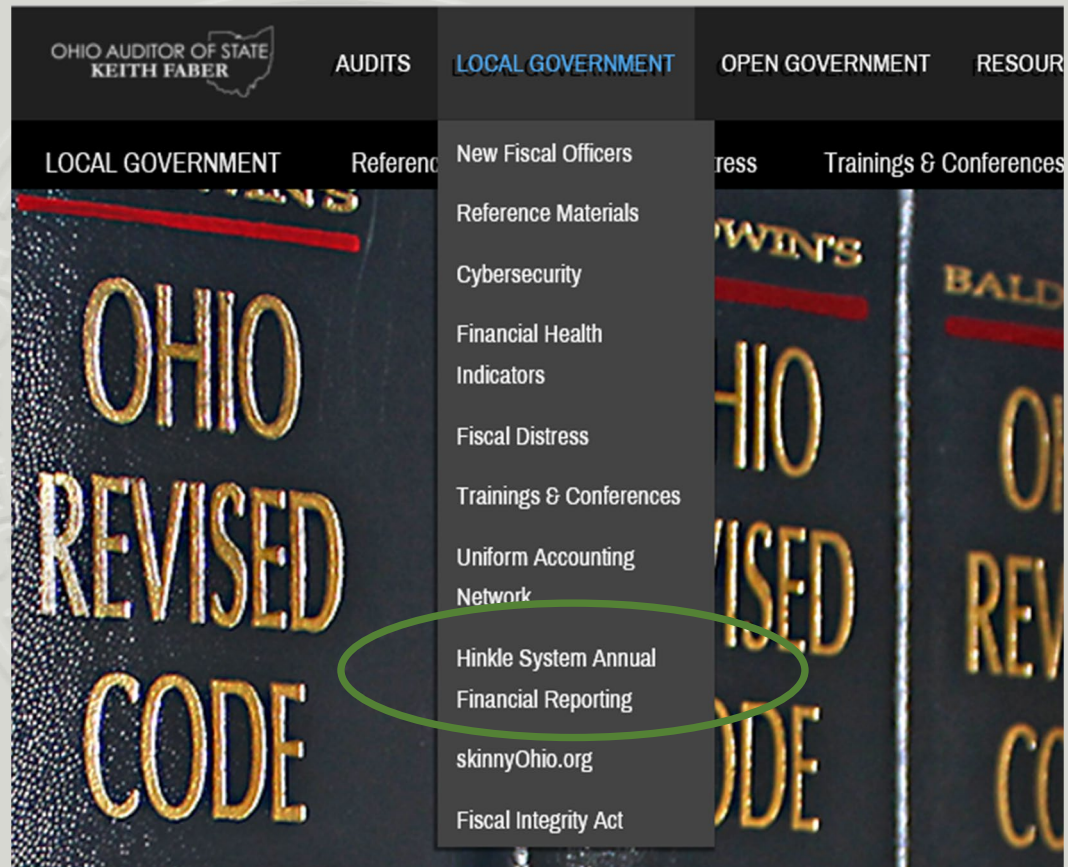
<http://www.ohioauditor.gov/references/shells/gasb35gaap.html>



# Annual Financial Statement Filing

On our web page:

<http://www.ohioauditor.gov/>



# Annual Financial Statement Filing

## Hinkle System

[Preparing Notes for Filing](#)

[Questions? Click here.](#)

[Hinkle System Filings here](#)



### Hinkle Annual Financial Data Reporting System

**The Hinkle System** is an internet-based application that allows certain financial statement, debt, and demographic data to be entered and/or uploaded and transmitted to the AOS to satisfy the filing requirements prescribed by the ORC and the OAC. The Hinkle System increases uniformity in financial reporting, generates the statutory reports for the governor and general assembly required pursuant to ORC §117.38, and provides users of this information improved access and functionality.

# Annual Financial Statement Filing

## More References

▶ Quick Guides

▶ Forms

▶ Additional Guidance



# Common Noncompliance Citation

**Ohio Rev. Code § 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 by 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.

# Common Noncompliance Citation

**Ohio Rev. Code § 9.38** requires public money to be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day of the week following the date of collection.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. The policy must include provisions and procedures to safeguard money during the intervening period.

# Common Noncompliance Citation

**Ohio Rev. Code § 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.

# Sample Property Tax Settlement

	TX/RT MILLS	EF/RT MILLS	REAL RECEIPTS	PERS-PROP RECEIPTS	TOTAL RECEIPTS	FEE A/T/REA DETAC	RECEIPTS NET-OF-FEES	ROLLBACK	2.5%-R/B	HOMESTEAD
FIRE & E.M.S. #108 2010/ /	1.00 .724880000 1.000000000		3042.78	306.10	3348.88 32.36 D	38.27 1.62	3308.99	532.87	46.75	214.08
FIRE CURRENT EXPE #109 1977/1982/	2.00 .679108000 .784790000		2848.17	612.20	3460.37 30.32 D	38.84 1.52	3420.01	499.23	43.75	200.56
GENERAL FUND #110 / /	3.60 3.600000000 3.600000000		15089.24	1101.96	16191.20 160.73 D	185.98 8.04	15997.18	2646.43	231.84	1063.17
<b>A L L L E V I E S</b>			20,980.19	2,020.26		263.09 D 11.18	22,726.18	3,678.53	322.34	1,477.81



# Common Noncompliance Citation

**Ohio Rev. 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.



# Common Noncompliance Citation

**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 2018. As a result, there was an increased risk of the Township incurring deficit cash balances.

# Common Noncompliance Citation

**Ohio Rev. Code § 117.103 (B) (1)** states that a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment.

# Common Noncompliance Citation

**Ohio Rev. Code § 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.

# Common Internal Control Issues



# Internal Control Recommendation

## Financial Reporting

In our audit engagement letter, as required by AU-C Section 210 *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Errors were noted in the financial statements resulting in the following audit adjustments:

# Internal Control Recommendation

## Cash Reconciliations

While obtaining an understanding of internal controls over the cash reconciliation process, we identified a deficiency in the City's controls such that there was a reasonable possibility that a material misstatement of the entity's financial statements would not be prevented, or detected and corrected in a timely manner. A crucial step in the internal control over financial reporting is to reconcile monthly the cash bank balance and investments to the balance in the accounting records and provide support for reconciling items. The reconciliation process will help ensure complete, accurate and timely posting of receipts and will promote the detection of errors or irregularities by the City's management in a timely manner.

At year end, there was an immaterial unreconciled variance identified in the bank reconciliations.

# Internal Control Recommendation

## Charges for Services

The City received payments on outstanding sewer accounts in several different ways, including mailed checks, in person cash and check payments and electronic bill payment services. Slips are kept separate for each type of payment received and totaled, and no slips are available for electronic bill payments.

There were difficulties in reconciling daily deposits with the batches of slips received, as dates on the slips did not match the deposit or recording dates, especially when monies were received after the daily deposit was already made. Additionally, we were not able to reconcile individual electronic bill payments or check payments, as documentation only showed a total of all of each type of payment daily, with no detail or copies of the checks.

# Internal Control Recommendation

## Complete Capital Asset Listing

The city had a capital asset inventory report compiled by the industrial Appraisal Company; however, this report did not include seven assets totaling \$7,237,729. A separate spreadsheet was maintained to account for and track these assets.

Maintaining capital assets in more than one report can lead to errors in transferring the figures to the year-end financial report.



# Internal Control Recommendation

## Accounting System deficiencies - Budgetary

The Township did not have a control in place to ensure that amended certificates as authorized by the Board of Trustees 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 and the Road & Bridge Fund in 2017.

# Internal Control Recommendation

## Approval of Monthly Financial Report

City Council members received a monthly fund balance report, monthly revenue and expenditure reports (which included budgetary information) from the City Auditor along with monthly income tax reports from the Income Tax Administrator. The Council was not provided with the monthly bank reconciliation or a listing of expenditures each month. Also, the council minutes did not document the receipt and approval of the monthly financial information, nor was there any indication of review or approval documented on the financial reports.

# Internal Control Recommendation

## Segregation of Duties

The small size of the Township's staff did not allow for an adequate segregation of duties; the Fiscal Officer performed all accounting functions. It is therefore important that the Board of Trustees and the Audit Committee monitor financial activity closely.

# Internal Control Recommendation

## 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 Township did not have policies governing the following items which are utilized by the Township's employees during the course of their employment:

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

# Questions?

Questions???



OHIO AUDITOR OF STATE  
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