



Advanced Governmental Accounting Seminar

August 2-3, 2023


Put-In-Bay, OH

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**OHIO GFOA
ADVANCED GOVERNMENTAL
ACCOUNTING AND FINANCIAL
REPORTING**

*August 2 & 3, 2022
Put-In-Bay, Ohio*




INSTRUCTORS

- Jared Cottrell, Principal, Rea & Associates
- Ashley Perry, Auditor of State of Ohio
- Joann Bury, Director of Finance, City of Gahanna
- Jeff McCuen, Ohio GFOA Education Chair




INTRODUCTIONS

- Participants
 - Name
 - Title/Area of Work
 - Entity
 - Years of Experience
 - One Interesting Fact??
 - Complete index card(s) with questions



INTRODUCTIONS



OHIO
GFOA
Office of Governmental Finance

COURSE OBJECTIVES

- Learn what's new in governmental accounting
- Ohio Biennium Budget
- How to implement new GASB's
- Deep Dive Topics
- Review outstanding GASB Projects

OHIO
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WHAT'S GOING ON?

GASB insatiable desire for more standards?

OHIO
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GFOA V. GASB
(PER JEFFREY L. ESSER, GFOA EXECUTIVE
DIRECTOR/CEO)

- GFOA concerned that GASB has been moving beyond its proper jurisdiction confusing accounting with accountability
- GASB insists that its charge extends not just to accounting, but to all aspects of accountability – staking a claim to set future reporting standards for future financial and non financial aspects of public administration



GFOA CONCERNS

- GASB has opted for a supply driven approach, which presumes demand for standards is limitless
 - 14 standards in 1992 NOW #101!!!!
- There isn't an accounting solution to every financial problem
- GASB has been creating unnecessary divergence from private-sector standards
 - Exemplified by separate standard for factoring receivables, pollution remediation, deferred inflows & outflows and derivatives



PROSPECTS FOR THE FUTURE

- GFOA remains committed to independent standard setting
- GFOA will carefully monitor developments and represent interests of state and local governments



GASB PROJECTS PROCESS

- Pre-Agenda Research
- Add to Agenda
- Deliberations
- Invitation to Comment
- Preliminary Views
 - Comment period & redeliberate
- Exposure Draft
 - Comment period & redeliberate
- Final Pronouncement



GASB PROJECTS PROCESS

- *"The users are often very late to the game in terms of understanding the impact of new accounting standards"*
 - ~ Mark LaMonte, former managing director
Moody's Investors Service
- Many opportunities to provide input
- We need to do a better job of getting out front of these issues.




GASB YEAR IN REVIEW

- Overview of Upcoming Implementations
- New Pronouncements - 3
- Exposure Drafts




WHEN DO WE IMPLEMENT?

Statement #	Effective for Periods beginning after:
▪ GASB 99 Omnibus 2022	▪ June 15, 2023
▪ GASB 100 Acct Changes	▪ June 15, 2023
▪ GASB 101 Comp Abs	▪ Dec 15, 2023




CURRENT GASB PROJECTS CONCEPTUAL FRAMEWORK

- Conceptual Framework: Recognition
 - Exposure Draft redeliberation



CURRENT GASB COMPREHENSIVE PROJECTS

- Financial Reporting Model
 - Exposure Draft being redeliberated
- Revenue & Expense Recognition
 - Preliminary Views redeliberation



CURRENT GASB PROJECTS
MAJOR PROJECTS

- Going Concern Uncertainties and Severe Financial Distress
 - Initial Deliberations
- Infrastructure Assets
 - Initial Deliberations



CURRENT GASB PROJECTS
PRACTICE ISSUES

- Classification of Nonfinancial Assets
 - Initial Deliberations
- Risks and Uncertainties disclosures
 - Exposure Draft Redeliberations




CURRENT GASB PROJECTS
PRE-AGENDA RESEARCH

- Subsequent Events
- Interim Financial Reporting removed
- Capital assets removed







**Worthington AM Rotary
OSU Football Raffle**

1 chance for \$20
3 chances for \$50

wamr.org/footballraffle



Ohio 2024-2025 State Budget

HB 33 135TH GENERAL ASSEMBLY

[HTTPS://WWW.LEGISLATURE.OHIO.GOV/LEGISLATION/135/HB33](https://www.legislature.ohio.gov/legislation/135/HB33)

Agenda

- Brief overview of the budget
- Items of interest the Governor vetoed
- Items of Interest that were passed
- Disclaimer
- Questions

Brief Overview

- HB 33 of the 135th General Assembly was signed into law by the Governor on July 3, 2023
- The passed bill is over 6,000 pages long
- Almost \$200 billion is expected to be spent over the two-year period
- Upon signature, appropriations are effective immediately
- Anything else, without a date specified in the legislation, is effective 91 days after (October 2, 2023)

Brief Overview

Spirit of the Bill

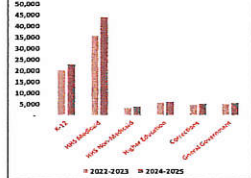
- Lower the tax burden on residents and businesses
- Make appropriations to enhance
 - Education and job readiness
 - Economic Development
 - Healthcare
 - Access to childcare
 - Affordable housing
 - Public Safety

Brief Overview

GRF Revenue Comparison



GRF Expenditure Comparison



Brief overview

- Main areas of funding for Healthcare
 - ✓ Mental & Behavioral Health
 - ✓ Infant Mortality
 - ✓ Addiction Recovery
 - ✓ Healthcare for the aging
 - ✓ Healthcare for those with access limitations
- Main areas of funding for Education
 - ✓ Literacy/Teacher Training & Licensure
 - ✓ Job Readiness
 - ✓ Career Technical Education/Certification Courses
 - ✓ Technology/Computer Science (Cybersecurity)
 - ✓ Transportation

Brief overview

- Main areas of funding for Development
 - ✓ Transportation improvements
 - ✓ Broadband improvements
 - ✓ Affordable Housing
 - ✓ Loan and Grant Programs
 - ✓ Tax Credit Programs
- Public Safety Funding
 - ✓ Focus is the upgrade of the wireless 911 system
 - ✓ Enhancement of all communication networks across the State

Items of Interest Vetoed

- Governor vetoed 44-line items
- Items of interest vetoed
 - ✓ Removed restriction of political subdivisions to pass their own tobacco regulations
 - ✓ Removed various amendments that would have allowed for classifying certain revenues as General Revenues and allowing changes to various caps on what may be appropriated
 - ✓ Removed ability for the General Assembly to exceed General Revenue appropriation limits
 - ✓ Removed various requirements for public employers and employees to report fraudulent or illegal activity to the Auditor of State
 - ✓ Vetoed extension of the Sales Tax Holiday for a set number of days
 - ✓ Vetoed performance audit requirements for Medicaid and Jobs and Family Services

Items of Interest Passed

Items that Impact All

- ✓ Dipping toe into the 21st century and allowing for continuation of virtual or teleconference meetings for many
- ✓ Allowing for the electronic submission of many documents
- ✓ Consolidated IT purchases to allow DAS to make IT purchases for government entities at lower aggregate cost
- ✓ Requires training on AOS fraud reporting system
- ✓ Increases competitive bid threshold from most political subdivisions to \$75,000 for 2024 then 3% every year thereafter
- ✓ Joint Committee on Property Tax Review and Reform created
- ✓ Exempts from competitive selection renewals or maintenance of IT supplies and service

Items of Interest Passed

County

- ✓ Increasing Medicaid rates for service providers (maybe)
- ✓ Repeal ability for certain county related corporations to opt into Social Security
- ✓ For rural counties Connect4Ohio for transportation improvements
- ✓ Joint Committee on Property Tax Review and Reform
- ✓ Specific to Cincinnati, County may levy additional lodging tax of 1% for sports facility intended to house Major League Soccer.
- ✓ Specific Lake Erie Islands, portion of existing lodging tax for public safety in resort areas
- ✓ For certain Counties may exempt Headquarter Hotels of convention centers from lodging tax and require payments in lieu

Items of Interest Passed

County

- ✓ Upgrade to voter registration database provides \$5M in grants for County Board of Elections to upgrade
- ✓ Could potentially see uptick in revenue for County Public Health Departments to enforce local tobacco and alternate nicotine product legislation
- ✓ Funding for mental and behavioral health, addiction services and other health and human services (maybe)
- ✓ Wireless 911 upgrades
- ✓ Various loan and grant programs available for developers
- ✓ Increases floor for LGF contributions to County undivided funds to \$850K

Items of Interest Passed

Municipality

- ✓ Ability to pass local tobacco and alternative nicotine product legislation
- ✓ Wireless 911 upgrades
- ✓ Air Quality Development Authority allows special incentive districts for air quality facilities
- ✓ Continuation of AG Peace Officer training program new maximum of 40 hours
- ✓ Water & Sewer Quality program grants for political subdivisions
- ✓ Income tax Ordinance changes needed:
 - NOL deduction erroneous cross reference needs corrected
 - Exemption of income tax for individuals under 18 (most probably already have)
 - Allow apportionment formula for net profit taxes attributable to work from home
 - Changes late filing penalty. No penalty first offense and then flat \$25.
 - Limits inquiries and notices during extension periods (clarification about Ord)

Items of Interest Passed

Municipality

- ✓ Tax credits available for investment and construction of affordable single-family homes
- ✓ For now, hold harmless funding for LGF from the General and Income Tax Reduction Fund (also PLF).
- ✓ Increase LGF and PLF percentage of General Revenues from 1.66% to 1.7%
- ✓ Various grant opportunities for local law enforcement
- ✓ Various grant and loan opportunities available for development

Items of Interest Passed

Schools

- ✓ Overhauls Department of Education
 - Renames as Department of Education and Workforce (DEW)
 - Transfers most powers from the State Board of Education and Superintendent of Public Instruction to DEW
 - Director of DEW appointed by Governor
- ✓ School Funding
 - Calculation will be conducted the same as passed by HB 110 (2022-2023 State Budget) with some modifications
 - Update cost formula to 2022 data

Items of Interest Passed

Schools

- ✓ School Funding
 - Use of FY2024 statewide average base cost per pupil
 - Increase minimum state share percentage to calculate several components from 5% to 10%
 - Maintains FY guarantee that FY 2023 funding does not fall below FY 2021 levels
 - General Assembly will determine calculations beginning in FY 2026
 - Temporary equity supplement of \$650 per pupil for site-based Community and STEM schools
 - Increases per pupil and share percentages for gifted professional development, disadvantaged pupils, transportation

Items of Interest Passed

Schools

- ✓ School Funding
 - Drop out prevention and recovery funding for credential only programs, e-schools, Ohio Technical Centers, Career Technical Centers
 - Overhaul literacy curriculum and provide necessary funding to assist with new materials and professional development that may be needed
 - Enhance workforce ready programs funding OTC, CTC, expanding exposure to trades, career awareness and exploration
 - Funding for Computer Science licensure designation and related materials and professional development that may be needed
 - Disadvantage pupil/special education enhancements for literacy and mental & behavioral health, increased transportation funding

Items of Interest Passed

Schools

- ✓ School Funding
 - Transportation funding increases and other incentives, as well as reduction to funding to those who do not comply with student transportation requirements
 - Increase teacher minimum salary from \$30,000 to \$35,000 (sure most start higher than code)
 - Changes in licensure grade bands and ability to teach outside of band
 - Permanent provision to hire a substitute teacher without a post secondary degree
 - Free lunch for all who qualify for reduced-price
 - Tightening up on Student Wellness and Success funds, how they may be used, timing and plan creation

Items of Interest Passed

Schools

- ✓ School Funding
 - Requires feminine hygiene products for grades 6-12 funding for 2024 and 2025 then falls on District
 - For interscholastic conference requires cash be accepted for sporting events and concessions
 - New reporting requirements may require software upgrades/replacement for policy analysis
 - Makes school choice easier, income verification removed and reduced allocation above certain percentage of FPL (Federal poverty line)

Items of Interest Passed

Income Tax Reform

- ✓ New or amended tax deduction/credit programs
 - Homeownership saving linked deposit account, deduction for interest earned
- Deductions/exclusion for money received from the government or company for train derailments (personal and CAT)
- Credit for tuition to non-chartered non-public school Increase \$500 and removes total income not to exceed \$100K
- Tax credit for rehabilitation or building of houses for lower income occupants
- Motion picture tax credit increased by \$10M and has additional \$25M for completing capital improvement projects
- Affordable housing projects credit, renting by July 1, 2023, and ends June 30, 2027

Items of Interest Passed

Income Tax Reform

- ✓ Tax bracket reduction from four to two
 - For 2023 combine top two brackets change threshold \$26,050 to \$100K at 2.75%
 - For 2023 reduces rate for income over \$115,300 to 3.75%
 - For 2024 combines top two brackets at a rate of 3.5%
 - No inflationary adjustments to tax brackets and exemptions 2023 & 2024
- ✓ CAT (Commercial Activity Tax)
 - Exempts grants and debt forgiveness for broadband expansion
 - 2024 exempts businesses with taxable gross receipts of \$3M or less
 - 2025 exempts businesses with taxable gross receipts of \$6M or less

Items of Interest Passed

Property Tax

- ✓ No significant changes for this budget but changes will be coming
- ✓ Inflationary adjustment for homestead exemption
- ✓ TIF flexibility to transfer parcels to another TIF District or extend
- ✓ Property tax exemption for unimproved land subdivided for residential development

Items of Interest Passed

Miscellaneous

- ✓ Budget stabilization increased from 8.5% to 10%
- ✓ Increase percentage of federal poverty level for publicly funded childcare
- ✓ Creates Division of Marijuana Control
- ✓ Continue lease agreement for Job'sOhio to lease State's liquor franchise to fund the program
- ✓ OPERS consolidating combined plan with the defined plan
- ✓ Sports gaming receipts tax increase from 10% to 20%

Education Choice Vouchers

- ✓ 2005 Students from low performing schools
- ✓ 2013 Families below certain income levels regardless of schools
- ✓ FY24 All students qualify \$6,165 K-8 and \$8,407 9-12
- ✓ Prorated if above 450% of poverty level
- ✓ Almost \$1 billion per year
- ✓ 36,000 + students in FY22

Education Choice Vouchers

Ohio Ed Choice Voucher Program


FPL	K-8	9-12
0% - 450%	\$ 6,165	\$ 8,407
451% - 500%	\$ 5,200	\$ 7,050
501% - 550%	\$ 3,650	\$ 5,000
551% - 600%	\$ 2,600	\$ 3,550
601% - 650%	\$ 1,850	\$ 2,500
651% - 700%	\$ 1,300	\$ 1,750
701% - 750%	\$ 900	\$ 1,250
751% +	\$ 650	\$ 950

School must accept voucher as full payment if under 200%

Scholarship donation credit \$750 per person


GASB 96

SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)




EFFECTIVE DATE AND TRANSITION

- Effective for reporting periods beginning after June 15, 2022 (fiscal year 2023 and calendar year 2023). Early application is encouraged
- Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.



WHY GASB 96

It has become common for governments to enter into subscription-based contracts to use vendor-provided information technology (IT). Subscription-based information technology arrangements (SBITAs) provide governments with access to vendors' IT software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible capital assets. Prior to the issuance of this Statement, there was no accounting or financial reporting guidance specifically for SBITAs.



GASB 96 EXCLUSIONS

- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, *Leases*, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system)
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended.



DEFINITION

For purposes of applying this Statement, a SBITA is a contract that **conveys control** of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract **for a period of time in an exchange or exchange-like transaction**.



CONVEYS CONTROL?

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both of the following:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract.
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.



SUBSCRIPTION TERM

- Period in which a government has a **noncancellable** right to use the underlying IT assets plus:
 - Government's option to extend if it is reasonably certain it will exercise
 - Government's option to terminate if it is reasonably certain it **will not** exercise
 - SBITA vendor's option to extend if it is reasonably certain it will exercise
 - SBITA vendor's option to terminate if it is reasonably certain it **will not** exercise
- Periods where the government and SBITA vendor have an option to terminate without permission from the other party are cancellable and are excluded from the term.



SHORT-TERM SBITA'S

- A short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.
- A government should recognize short-term subscription payments as outflows of resources (for example, expense) based on the payment provisions of the SBITA contract.



RECOGNITION AND MEASUREMENT AT COMMENCEMENT

- At the commencement of the subscription term, a government should recognize a subscription liability and an intangible right-to-use asset (a capital asset hereinafter referred to as the subscription asset).
- The commencement of the subscription term occurs when the initial implementation stage is completed, at which time the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.



SUBSCRIPTION LIABILITY

A government initially should measure the subscription liability at the present value of subscription payments expected to be made during the subscription term, including:

- Fixed payments
- Variable payments that depend on an index or rate
- Variable payments that are fixed in substance
- Penalty payments, if applicable
- Subscription contract incentives
- Any other payments reasonably certain of being required



SUBSCRIPTION LIABILITY

- Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government. If the interest rate cannot be readily determined, the government's estimated incremental borrowing rate should be used.
- In subsequent financial reporting periods, a government should calculate the amortization of the discount on the subscription liability and report that amount as an outflow of resources (for example, interest expense) for those periods.
- Any subscription payments made should be allocated first to the accrued interest liability and then to the subscription liability.



SUBSCRIPTION LIABILITY - REMEASUREMENT

A government should remeasure the subscription liability at subsequent financial reporting dates if one or more of the following changes have occurred, if significant:

- Change in subscription term;
- Change in the estimated amounts for subscription payments;
- Change in the interest rate the SBITA vendor charges the government, if used as the initial discount rate; and
- A contingency is resolved such that certain payments now meet the criteria for inclusion.



SUBSCRIPTION ASSET

A government initially should measure the subscription asset as the sum of the following, less any SBITA vendor incentives received:

- Amount of the initial measurement of the subscription liability;
- Payments made to the SBITA vendor at commencement of the term; and
- Capitalizable initial implementation costs.



SUBSCRIPTION ASSET - AMORTIZATION

- A subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets.
- The amortization of the subscription asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.
- Amortization should begin at the commencement of the subscription term.



SUBSCRIPTION ASSET - REMEASUREMENT

A subscription asset generally should be adjusted by the same amount as the corresponding subscription liability when that liability is remeasured. However, if that change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).



STAGES OF IMPLEMENTATION

- Preliminary Project Stage – conceptual formulation and evaluation of alternatives.
- Initial Implementation Stage – ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation. This stage is completed when the asset is placed into service.
- Operation and Additional Implementation Stage – includes maintenance, troubleshooting, and other activities associated with ongoing access. May also include additional modules.



STAGES OF IMPLEMENTATION

- Preliminary Project Stage – Expense as incurred.
- Initial Implementation Stage – Capitalized as part of subscription asset. If no subscription asset is recognized (for example, if the contract is a short-term SBITA), then expense as incurred.
- Operation and Additional Implementation Stage – Costs associated with operating activities should be expensed as incurred and costs that result in increased functionality or increased efficiency of the subscription asset should be capitalized.
- Training Costs – Expense as incurred, regardless of stage.



MODIFICATIONS AND TERMINATIONS

- Amendments to SBITA contracts should be considered a modification unless the government's right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full termination.



MODIFICATIONS

A government should account for an amendment during the reporting period resulting in a modification to a SBITA contract as a separate SBITA (that is, separate from the most recent SBITA contract before the modification) if both of the following conditions are present:

- The SBITA modification gives the government an additional subscription asset by adding access to more underlying IT assets that were not included in the original SBITA contract.
- The increase in subscription payments for the additional subscription asset does not appear to be unreasonable based on (1) the terms of the amended SBITA contract and (2) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).



TERMINATIONS

- A government should account for an amendment during the reporting period resulting in a decrease in the government's right to use the underlying IT assets (for example, the subscription term is shortened or the underlying IT assets are reduced) as a partial or full SBITA termination.
- A government generally should account for the partial or full SBITA termination by reducing the carrying values of the subscription asset and subscription liability and recognizing a gain or loss for the difference.



MODIFIED ACCRUAL – FUND ACCOUNTING

- If a SBITA is expected to be paid from general government resources, the SBITA should be accounted for and reported on a basis consistent with governmental fund accounting principles.
- An expenditure and other financing source should be reported in the period the subscription asset is initially recognized. Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt.



NOTE DISCLOSURES

- A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined.
- The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets.
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability.



NOTE DISCLOSURES

- The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability.
- Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter.
- Commitments under SBITAs before the commencement of the subscription term.
- The components of any loss associated with an impairment (the impairment loss and any related change in the subscription liability).



EXAMPLE 1: INITIAL MEASUREMENT

Three Year Subscription


Subscription Term: 1 year terms expected to renew for a total of 3 years
9/1/22 through 8/31/25

Annual Payments: \$45,000 per year paid at the beginning of each year
Discount Rate: 4%

Initial Journal Entry

Subscription Asset	\$129,784.16	
Subscription Liability		\$84,784.16
Cash		\$45,000.00






EXAMPLE 1: SUBSEQUENT MEASUREMENT

Month 1 Entry


Amortization Expense	\$3,605.12	
Accumulated Amortization		\$3,605.12
Interest Expense	\$282.61	
Interest Payable		\$282.61
LT Subscription Liability	\$41,545.76	
ST Subscription Liability		\$41,545.76



EXAMPLE 1: SUBSEQUENT MEASUREMENT

Month 2 Entry

Amortization Expense	\$3,605.12	
Accumulated Amortization		\$3,605.12
Interest Expense	\$283.56	
Interest Payable		\$283.56



EXAMPLE 2: INITIAL MEASUREMENT


Five Year Subscription

Subscription Term: 5 year term expected
8/1/22 through 7/31/27

Monthly Payments: \$1,500
Discount Rate: 6.5%

Initial Journal Entry


Subscription Asset	\$77,078.28	
Subscription Liability		\$75,578.28
Cash		\$1,500.00



EXAMPLE 2: SUBSEQUENT MEASUREMENT

Month 1 Entry

Amortization Expense	\$1,284.64	
Accumulated Amortization		\$1,284.64
Interest Expense	\$409.38	
Interest Payable		\$409.38
LT Subscription Liability	\$13,484.44	
ST Subscription Liability		\$13,484.44




EXAMPLE 2: SUBSEQUENT MEASUREMENT

Month 2 Entry

Amortization Expense	\$1,284.64	
Accumulated Amortization		\$1,284.64
Interest Expense	\$403.47	
Interest Payable	\$5.91	
LT Subscription Liability	\$1,163.66	
ST Subscription Liability		\$73.07
Cash		\$1,500.00


IMPLEMENTATION GUIDE

- Identify all potential contracts (enlist help of CTO and/or similar people to help ensure completeness)
- Evaluate each contract and extract data from applicable contracts
- Maintain documentation to support contracts deemed not applicable/not material
- Identify capitalizable implementation costs, if applicable (permitted to capitalize implementation costs of transition subscriptions, but not required to).
- Use facts and circumstances that existed at the beginning of the fiscal year




ODOT PROJECTS

FINANCIAL ACCOUNTING AND REPORTING




ODOT PROJECTS - AGENDA

- Local Let Projects
- ODOT Let Projects
- Schedule of Expenditures of Federal Awards



LOCAL LET PROJECTS

- Project is administered by local government (i.e. City/County).
- Project is paid by ODOT with invoices approved by local government.
- On-behalf transactions recorded and budgeted by local government (AOSTB 2000-008).
- Local government reports federal expenditures.



LOCAL LET PROJECTS (CONTINUED)

- **Cash Journal impact:**
 - Local government should record on-behalf payments as revenue and expenditures in the cash journal
- **Capital Asset impact:**
 - Local government reports 100% of project costs as capital asset
 - Local contribution + ODOT contribution
 - Capital Asset Addition = Ledgers + On-Behalf payments (if not already recorded on cash basis ledgers)
- **Budgetary impact**
 - Local government may have budgetary noncompliance
 - On-behalf transactions not properly budgeted



ODOT LET PROJECTS

- Project is **administered by ODOT**.
- Project is paid by ODOT; invoices do not require local government approval.
- Local government does **NOT** report on-behalf transactions and does not budget for the project.
- Local government does **NOT** report federal expenditures.




ODOT LET PROJECTS (CONTINUED)

- Local government reports a percentage of project as a capital asset
 - Percentage reported determined by "GASB Local Request for Reportable Costs"
 - <http://www.dot.state.oh.us/Divisions/Finance/Pages/GASB34.aspx>
 - Portion ODOT contributes to the project reported as a capital contribution on Statement of Activities/Proprietary Fund Statement




ODOT LET PROJECTS (CONTINUED)

- How are we finding these?
 - <https://ellisproj.dot.state.oh.us/>
 - This web application contains summary project information from ODOT's project management system, Ellis.
 - <https://cmsportal.dot.state.oh.us/Home/ContractorReports>
 - CMS portal > Capital Project Payment Report
 - Search by PID to see if activity during the year




SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

- Complete Cost Tracking Spreadsheet
- Complete SEFA Template
- Request Confirmation from ODOT (allow three weeks for ODOT to process request).



SEFA EXCLUSIONS

- ODOT Task-Order Payments – ODOT provides administration of these project services and reports these expenditures on ODOT's SEFA.
- Construction and Construction Engineering Costs Administered by ODOT – Per federal guidance, ODOT-Let construction on an LPA-sponsored project is NOT classified as a subaward. Accordingly, for any project or phase of work that ODOT administers, ODOT will report the applicable federal expenditures.



Self Insurance



What is Self Insurance

- Taking on risk for events in your organization
 - Worker's Compensation
 - Health Insurance
- Use of Third Party Administrator to manage claims processing
- Can realize significant savings but not always



Things to Consider

- Self Insurance is not a "quick fix"
- Have a feasibility study prepared to identify potential cost savings
- Internal oversight of self insured program
- Tolerance for risk
- Specific and Aggregate Stop Loss insurance



Things to Consider

- Potential cost savings
- Improved cash flow/budget control
- Control over programs
- Medical Management



Ohio Worker's Compensation Qualifications to become self Insured

- Minimum of 500 employees
- Two years experience as a state fund employer
- The ability to administer a workers' compensation program
- Strong financial ability



Ohio Worker's Compensation Qualifications to become self Insured

- Unvoted debt capacity for the last two years must be twice the current annual premium
- Unreserved/Undesignated General Fund balance must be 5% of the general fund revenues for the two years prior to application
- Bond rating must be a minimum of Aa3
- Public employer must have complied with any SEC disclosure requirements for the last 5 years



Ohio Worker's Compensation Qualifications to become self Insured

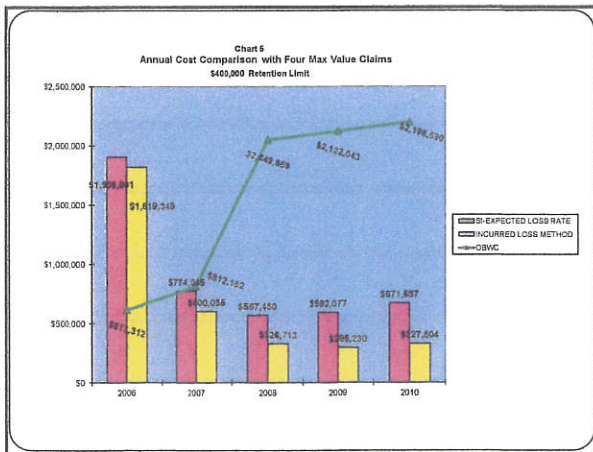
- Public employer has not had its local government fund distribution withheld in the last five years
- Public employer has not been on fiscal watch or emergency the last five years
- The audit report must be issued within 7 months of the public employer's fiscal year end

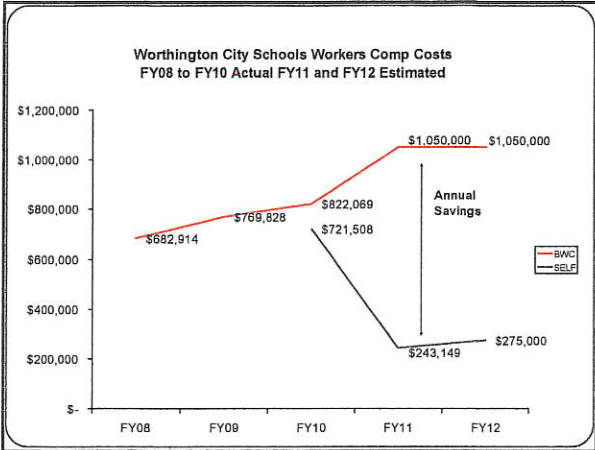


Ohio Worker's Compensation Self Insured Differences

- BWC discounts no longer apply
 - Drug Free Work Place
 - Premium Discount Program (+)
 - Transitional Work Grants









Health Insurance

- Similar comparisons to evaluate
- More complicated



Health Insurance

- Things to Consider
 - Current claims
 - Current pharmacy cost
 - Long term claimants
 - Risk profile of group
 - Individual and Aggregate stop loss coverage
 - Third Party Administrator cost



Council Of Governments

- Stop Loss Consortium
 - Multiple districts
 - Larger group provides savings due to risk profile

13





**STARK AREA REGIONAL TRANSIT AUTHORITY
STARK COUNTY**

SPECIAL AUDIT

FOR THE PERIOD JULY 21, 2008 THROUGH APRIL 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER



STARK AREA REGIONAL TRANSIT AUTHORITY
STARK COUNTY

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FRAUD EXAMINATION REPORT

Stark Area Regional Transit Authority
 Stark County
 1600 Gateway Blvd SE
 Canton, OH 44707

To CEO/Executive Director, Kirt Conrad, and Board of Trustees:

Summary

The Auditor of State, Special Investigations Unit (SIU) conducted a criminal investigation and special audit of the Stark Area Regional Transit Authority (SARTA) predicated on information received from SARTA's Executive Director regarding suspected theft by two former employees.

The investigation identified over \$421,000 in misappropriated SARTA expenses, which resulted in findings for recovery and supported criminal charges against former Human Resource Director Kristy Williams, and former Human Resource Administrator Brandy Pryor.

On March 23, 2020, Ms. Williams and Ms. Pryor were indicted by the Stark County grand jury. Ms. Williams was indicted on five counts, including one count each of theft in office, aggravated theft, tampering with records, insurance fraud, and forgery. Ms. Pryor was indicted on three counts, including one count each of theft in office, grand theft, and tampering with records.

On May 7, 2020, Ms. Pryor pled guilty to the three count indictment, as outlined below:

Count One	Theft in office, a felony of the third degree, in violation of R.C. 2921.41(A)(2), 2921.41(B)(3)
Count Two	Grand theft, a felony of the fourth degree, in violation of R.C. 2913.02(A)(2), 2913.02(B)(2)
Count Three	Tampering with records, a felony of the fourth degree, in violation of R.C. 2913.42(A)(2), 2913.42(B)(3)(c)

On May 11, 2020, Ms. Williams pled guilty to the five count indictment, as outlined below:

Count One	Theft in office, a felony of the third degree, in violation of R.C. 2921.41(A)(2), 2921.41(B)(3)
Count Two	Aggravated theft, a felony of the third degree, in violation of R.C. 2913.01(A)(2), 2913.02(B)(3)
Count Three	Forgery, a felony of the fifth degree, in violation of R.C. 2913.31(A)(3)
Count Four	Insurance fraud, a felony of the fourth degree, in violation of R.C. 2913.47(B)(1)(C)
Count Five	Tampering with records, a misdemeanor of the first degree, in violation of R.C. 2913.42(A)(2)

On May 18, 2020, Judge Frank Forchione sentenced Ms. Williams to four years in prison, three years community control, and ordered restitution of \$406,594. On June 29, 2020, Judge Forchione sentenced Ms. Pryor to five years community control, 200 hours of community service and ordered restitution of \$14,742.

In addition to the misappropriated monies included in restitution, our audit noted an additional \$43,450 in misappropriated or illegally expended monies, more fully described in the findings section below.

Background

The investigation began in May 2018, after SIU received information from SARTA's Chief Executive Officer (CEO) and Executive Director, Kirt Conrad, indicating the former Human Resource Director, Kristy Williams, was suspected of stealing \$160 cash from SARTA's wellness program based on camera footage of the incident. Additional allegations were also noted, including possible misuse of SARTA's credit card and fraudulent tuition reimbursements. Ms. Williams was terminated from her position at SARTA in April 2018. It was also suspected that another employee, Brandy Pryor, was receiving fraudulent tuition reimbursements. Ms. Pryor was also terminated from SARTA in May 2018.

After review of the information obtained from interviews and a preliminary examination of SARTA's tuition reimbursement records, credit card transactions, Ms. Williams' and Ms. Pryor's college transcripts, and Rite Aid purchases were considered, a Special Audit was declared by the Auditor of State.

Scope and Approach

We defined our audit period as covering July 21, 2008 through April 30, 2018, (the Period) based on the risk factors identified.

The specific objectives we tested to establish whether fraud was committed at SARTA were to examine certain SARTA disbursements (including tuition, travel, credit card, and payroll disbursements) to determine if those disbursements were supported and were for purposes related to SARTA operations, and also to determine whether disability insurance and Home Energy Assistance Program (HEAP) benefits were properly received during the Period. In order to test the objectives, we reviewed available documentation, subpoenaed bank and vendor records, and interviewed key SARTA personnel and witnesses. The objectives and procedures are described more fully in the attached Supplement to the Fraud Examination Report for the Period.

This engagement was conducted in accordance with the Auditor of State Special Investigations Unit, Quality Standards.

Findings

Based on the special audit procedures and investigation, the Auditor of State confirmed the allegations that Ms. Williams and Ms. Pryor misappropriated SARTA expenses and fraudulently obtained disability insurance and HEAP benefits over a span of eight years.

Kristy Williams was hired by SARTA on July 21, 2008; was promoted to Human Resource Administrator in August 2010; and, in September 2014, became the Human Resource Director. Brandy Pryor was hired by SARTA on August 14, 2013, and became the Human Resource Administrator in September 2014.

SIU's investigation and special audit uncovered \$463,679 taken by Ms. Williams and Ms. Pryor through multiple schemes due to a lack of internal controls and management oversight, including: \$40,718 in unauthorized tuition reimbursement payments; \$1,244 in unallowable travel expenses; \$285,111 in improper credit card purchases; \$113,503 in fraudulently obtained salary; and \$23,103 in improper disability insurance and federal assistance through the HEAP.

Finally, we identified credit card purchases, totaling \$1,107, made by two other SARTA employees that appear to be not for SARTA purposes.

Our report includes findings for recovery. A finding for recovery generally constitutes a finding that an individual or entity (e.g. a vendor) illegally received public money. Pursuant to Ohio Rev. Code Section 117.28, when the Auditor of State's office issues a finding for recovery, the individual or entity can repay the amount voluntarily; however, the finding for recovery empowers the public office's statutory legal counsel or the Attorney General's office to institute legal proceedings to collect that amount.

We issued five findings for recovery against four current and former SARTA employees totaling \$441,683 for misappropriated or illegally expended SARTA funds, and \$2,407 for fraudulent insurance and federal assistance received (which doesn't include \$20,696 in fraudulent disability insurance benefits received, as explained in the Appendix), as noted below:

Examination Areas	Kristy Williams	Brandy Pryor	Two SARTA employees	Total
Tuition Reimbursements	\$25,976	\$14,742	\$0	\$40,718
Travel Expenses	\$1,021	\$223	\$0	\$1,244
Improper Credit Card Purchases	\$280,937	\$4,174	\$1,107	\$286,218
Human Resource Director Salary	\$113,503	\$0	\$0	\$113,503
Insurance/HEAP Fraud	\$23,103	\$0	\$0	\$23,103
Total	\$444,540	\$19,139	\$1,107	\$464,786

In addition to the findings for recovery, we issued seven management recommendations regarding records retention, public records policy, rewards card policy, credit cards, travel expenses, tuition reimbursement policy, and proper public purpose policy. The full details of the findings for recovery and management recommendations are located in the Appendix.

On October 5, 2020, we held an exit conference with the following individuals representing SARTA:

Kirt Conrad, CEO	Carrie Domer, CFO
Paul Malesick, Board Attorney	James Reinhard, Board Vice-President

The attendees were informed they had five business days to respond to this fraud examination report. A response was received on October 9, 2020. A response was provided by SARTA and was evaluated in the final preparation of this report.

Keith Faber
Auditor of State

October 13, 2020

**SUPPLEMENT TO THE FRAUD
EXAMINATION REPORT**

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective 1

Examine whether certain disbursements made by SARTA during the Period were supported and for a proper purpose.

PROCEDURES

We examined available documentation for certain tuition reimbursements, travel expenses, and credit card purchases to determine whether these payments made during the Period were supported and for purposes related to the operations of SARTA.

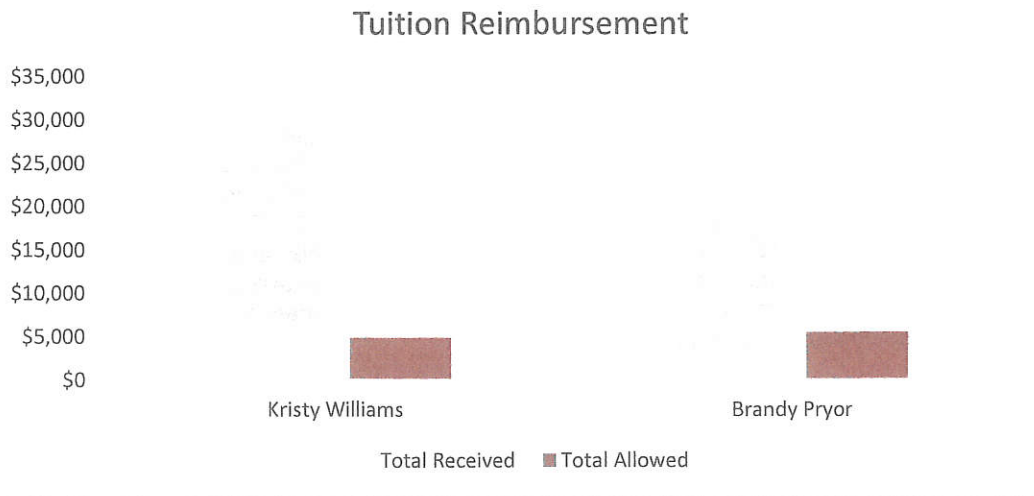
We examined certain payroll disbursements, college transcripts, and SARTA employment records to determine whether Ms. Williams was properly hired as the Human Resource Director.

RESULTS

Tuition Reimbursements

During the Period, SARTA maintained a tuition reimbursement program and provided reimbursement to employees if certain requirements had been met. However, while SARTA was reviewing and closing out Ms. Williams SARTA-issued computer after her termination, several suspicious tuition related documents related to Ms. Williams and Ms. Pryor were identified. SARTA was concerned Ms. Williams and Ms. Pryor provided fraudulent documents to SARTA to receive tuition reimbursement. Between May 2010 and March 2018, Kristy Williams received nine tuition reimbursement payments, totaling \$30,769, and Brandy Pryor received six tuition reimbursement payments, totaling \$20,158, between September 2014 and September 2016. The documents supporting the tuition reimbursement payments noted Ms. Williams attended American InterContinental University (AIU) and Ms. Pryor attended Franklin University. Based on documentation obtained from AIU and Franklin University, Ms. Williams was only enrolled at AIU from March 2010 to August 2010, and Ms. Pryor was only enrolled at Franklin University from September 2014 through December 2015. We substantiated SARTA's concern and determined Ms. Williams should have only received \$4,793 in tuition reimbursements; therefore, Ms. Williams received \$25,976 in excess of the authorized amount of tuition reimbursement. In addition, Ms. Pryor should have only received \$5,416 in tuition reimbursements; therefore, Ms. Pryor received \$14,742 in excess of the authorized amount of tuition reimbursement.

The following chart identifies the amount of tuition reimbursement Ms. Williams and Ms. Pryor received during the Period, and the allowable amount, based on documents received:



SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Additionally, we noted SARTA made all 15 tuition reimbursement payments to Ms. Williams and Ms. Pryor without the appropriate supporting documentation and/or proper approvals on the tuition reimbursement form, as outlined in the tuition reimbursement policy. Six tuition reimbursement application forms were not maintained, four were not approved, four were not approved prior to the beginning of course work, and three were not approved by the proper management. In addition, final grades from the school and invoices of fees charged were not maintained for nine courses to support the tuition reimbursement was paid according to the tuition reimbursement policy guidelines.

Travel Expenses

SARTA maintained a travel policy during the Period which identified allowable expenses and outlined additional requirements for employee reimbursement. We examined 37 travel reimbursements made to Ms. Williams and Ms. Pryor during the Period, totaling \$8,318. The following is a summary of the reimbursements examined:

	Number of Travel Reimbursements	Total
Kristy Williams	16	\$4,032
Brandy Pryor	21	\$4,286
Total	37	\$8,318

Of the 16 travel reimbursements to Ms. Williams, two payments, totaling \$297, were not supported; therefore, we were not able to verify the amount reimbursed was accurate. We identified another travel reimbursement, totaling \$73, for which the incorrect mileage rate was used to calculate the mileage reimbursement and support for the number of miles traveled was not maintained. Therefore, we were not able to verify the amount reimbursed was accurate.

We identified an \$80 shuttle/transportation payment to Ms. Williams on June 12, 2014. However, based on our review of the travel reimbursement form, Ms. Williams drove to the conference rather than flying; therefore, the shuttle reimbursement should not have been authorized. Ms. Williams also received mileage reimbursement for the conference trip on June 12, 2014.

We also identified two meal per diem payments, totaling \$571, to Ms. Williams for two conferences she indicated she attended: the Society of Human Resource Management (SHRM) Talent and Diversity Conference in San Francisco, California in October 2017, and the SHRM Conference in New Orleans, Louisiana in April 2018. Through a review of SARTA records, we were unable to identify any conference fees paid for Ms. Williams to attend these two conferences. During our investigation, SHRM was contacted to obtain copies of the invoices for the fees paid for the two conferences; however, SHRM did not have a record of Ms. Williams registering and making payment for the conferences in San Francisco or New Orleans. Our investigation identified that Ms. Williams traveled to New Orleans to attend WWE wrestling performances; therefore, her travel to New Orleans appears to be personal and not for SARTA related purposes.

Of the 21 travel reimbursements to Ms. Pryor, two payments, totaling \$220, for meal per diem reimbursements were not allowable. Ms. Pryor received a meal per diem reimbursement of \$132 for a one day training on August 4, 2015 in Lima, Ohio, and an \$88 meal per diem reimbursement to attend a conference without an overnight stay in March 2017. Based on SARTA's Travel Policy, meal per diem reimbursements are only allowable when the travel includes an overnight stay, and we were not able to identify any overnight stays associated with Ms. Pryor's travel on these two occasions. In addition, we noted one travel reimbursement payment, totaling \$59, was not calculated correctly. The incorrect IRS mileage rate was used, resulting in a \$3 overpayment.

During our examination of the travel request forms, we noted instances in which the travel request forms were not properly approved by the appropriate SARTA management or the approval date was not identified. Of the 37 travel reimbursements examined, 12 travel request forms were not properly approved (including not signed and not signed/dated within the policy guidelines), one travel form was not maintained, and another four were signed; however, the date of the approval was not documented. Therefore, we were not

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

able to determine whether the approval occurred at least three weeks prior to the travel date, in accordance with SARTA policy.

Credit Card Purchases

SARTA maintained 31 credit card accounts, including two American Express credit cards, six FIA credit cards, and 23 Huntington Bank credit cards for the Period. SARTA made purchases totaling over \$3.02 million on the credit cards.

The initial fraud complaint identified possible misuse of SARTA-issued credit cards by Ms. Williams at Rite Aid. Ms. Williams was responsible for administering SARTA's Wellness Program from September 2013 through July 2017, through which employees who remained tobacco free would receive bonuses. Ms. Williams was responsible for purchasing testing strips and other non-smoking products and testing employees. Ms. Williams indicated to SARTA she was purchasing these non-smoking products from Rite Aid. During the Period, we identified 216 Rite Aid purchases totaling \$240,134 on SARTA-issued credit cards. Of the 216 purchases, 134 (62%) totaling \$166,379 were not supported with itemized receipts to identify the items purchased. In addition, credit card sign in and out forms were not maintained and we were not able to determine the individual who made 125 (57.9%) purchases.

We obtained from Rite Aid a detailed listing of items purchased, and noted none of the items purchased were associated with the purchase of testing strips or other non-smoking products for SARTA purposes. The items purchased included VISA and miscellaneous vendor gift cards, food, beverages, cosmetics, cleaning supplies and other miscellaneous items. We noted 23 Rite Aid purchases of PayPal gift cards, totaling \$29,485 and the available balances were transferred directly into Ms. Williams' personal bank account. In addition, another 21 Rite Aid purchases, totaling \$30,832, were recorded on Ms. Williams' Rite Aid customer account number.

We further examined SARTA credit card records and compared to the Rite Aid listing of items purchased. Of the 172 remaining purchases, 76, totaling \$68,729, identified on the Rite Aid listing did not match the itemized receipts maintained by SARTA. All 76 itemized receipts identified Ms. Williams made an online purchase at Rite Aid for tobacco testing strips or other non-smoking products; however, the actual items purchased were VISA gift cards, vendor gift cards, and other miscellaneous items. Ms. Williams submitted fraudulent receipts to SARTA for the items purchased at Rite Aid. Computer forensic examination of Ms. Williams' SARTA computer revealed numerous emails from Ms. Williams' personal email address to her SARTA email address. A review of these emails revealed Ms. Williams had sent emails with attachments of fraudulent Rite Aid invoices, generated in a "Word" program, which were later submitted to SARTA as support for the payment. In addition, SARTA credit card records indicate Ms. Williams signed out the credit card used to make an additional 36 Rite Aid purchases, totaling \$48,419. The remaining 60 Rite Aid purchases, totaling \$62,669, were additional purchases identified as Wellness program items; however, items purchased were VISA and miscellaneous vendor gift cards and other miscellaneous items not for SARTA purposes.

As part of our investigation, we interviewed several Rite Aid employees from stores where Rite Aid purchases were made. Two cashiers recalled a frequent "white female, tall, with blonde hair" customer would come into the Rite Aid stores and purchase a lot of gift cards. One employee recalled the customer purchased approximately \$3,000 worth of gift cards one day and the customer casually explained she "worked at some bus line company and the gift cards were for a program they were promoting." When the employees were shown a photo of Ms. Williams, each identified Ms. Williams as the customer described.

We also examined SARTA's credit card statements for purchases that occurred around the dates of the Rite Aid purchases made during the Period. In addition, we examined the statements and support documents maintained by SARTA to identify any vendor or purchased item that appeared to be personal or not for SARTA operations.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

As a result, we examined an additional 300 credit card transactions totaling \$137,463 made by SARTA employees during the Period. Of the 300 transactions examined, 116 (38.7%) purchases totaling \$33,424 were not supported with receipts documenting the item purchased; however, we were able to determine 33 purchases, totaling \$8,333 were for SARTA purposes through a vendor analysis and examination of other related documentation, including purchase order documents. In addition, credit card sign in and out forms were not maintained and we were not able to determine the individual who made 67 (22.3%) purchases.

We identified 119 purchases, totaling \$32,137, made by Ms. Williams that appear to be personal and not for SARTA operations. 74 of the 119 purchases, totaling \$24,211, were not supported with an original receipt of items purchased; therefore, we were not able to determine whether the items purchased were proper and for SARTA purposes. The remaining 45 purchases, totaling \$7,926 were supported with a receipt; however, 31 items purchased were vendor gift cards or gift card reloads and appear to be personal purchases and not for SARTA purposes. The remaining 14 items purchased included food and other miscellaneous items that appear to be personal and not for SARTA operations.

We identified 15 purchases, totaling \$2,950, made by Ms. Pryor that appear to be personal and not for SARTA operations. One purchase totaling \$58 was not supported with an original receipt of items purchased; therefore, we were not able to determine whether the items purchased were proper and for SARTA purposes. The remaining 14 purchases were supported by an original receipt of items purchased; however, items purchased include vendor gift cards, food, and other miscellaneous items and were not for SARTA purposes.

In addition, we identified seven credit card purchases, totaling \$1,107, made by other SARTA employees that do not appear to be for a proper public purpose. In addition, we identified six credit card purchases totaling \$410 made by different employees that do not appear to be for a proper public purpose; however, the purchase amounts were small and will not be included in a finding for recovery. SARTA has not been able to provide any policies or board approval for these types of purchases. In addition, SARTA did not track certain recipients of gift cards, raffle items, or community gifts.

We identified five of seven credit card purchases for which the employee who made the purchase was not documented. SARTA Board Resolution #35-2015 authorizes the Executive Director/CEO to implement the credit card policy; and therefore, he is ultimately responsible for these improper purchases. The remaining two purchases were made by other SARTA employees and do not appear to be for a proper SARTA purpose. The following is a breakdown of the improper purchases made:

Employee	Number of Purchases	Amount
Tammy Brown	2	\$188
Kirt Conrad	5	\$919
Total	7	\$1,107

SARTA's travel policy also allowed each employee traveling for SARTA-related business to use a SARTA-issued credit card for travel expenses, which includes hotel reservations, transportation to/from airport, baggage fees, parking fees and tolls.

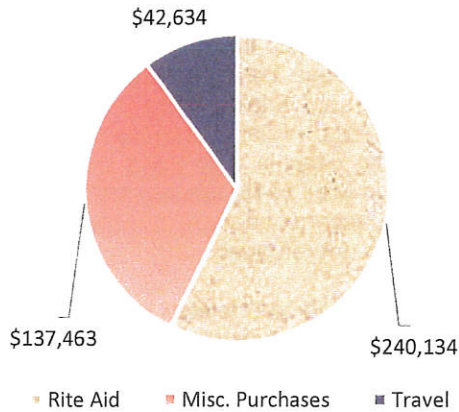
We identified Ms. Williams made 87 travel-related credit card purchases totaling \$22,150 on a SARTA-issued credit card during the Period. Of the 87, 53, totaling \$8,666, were not properly supported with itemized receipts or invoices or were identified as personal purchases. Additionally, we identified Ms. Pryor made 80 travel-related credit card purchases totaling \$20,484 on a SARTA-issued credit card during the Period. Of the 80 purchases, 35 totaling \$1,224, were not properly supported with itemized receipts or invoices or were identified as personal purchases. These charges included unallowable transportation costs, food, hotel upgrades, conferences not attended, and other miscellaneous travel expenses not for SARTA purposes. Some of the more significant items are detailed below:

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

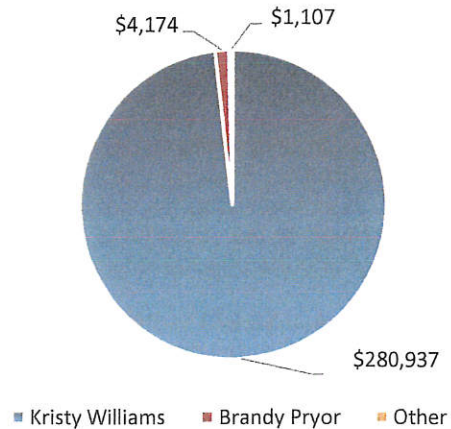
1. Ms. Williams used the SARTA-issued credit card to purchase \$771 in airfare and fees for her husband to travel with her to work-related conferences. We also identified a \$244 hotel charge Ms. Williams made on the SARTA-issued credit card for the MGM Grand Hotel in January 2015; however, we were not able to identify any SARTA-authorized travel Ms. Williams made to Las Vegas. In addition, we discovered several hotel upgrades purchased by Ms. Williams on the SARTA-issued credit card. In June 2014, Ms. Williams attended the SHRM Annual Conference in Orlando, Florida. The conference was held at the Cabana Bay Beach Resort; however, Ms. Williams stayed at the Nickelodeon Resort in the family suite totaling \$897. The purchase of the family suite was not for SARTA purposes. Additionally, Ms. Williams attended the Eno Center for Transportation Training Conference in Salt Lake City, Utah in July 2015. Ms. Williams pre-purchased hotel accommodations for the conference in May 2015, totaling \$867; however, when she arrived at the conference, she changed her hotel accommodations to another hotel, totaling \$1,455, and the original hotel reservation purchase was not refunded.
2. We identified \$3,878 in charges on the SARTA-issued credit card related to two conferences Ms. Williams did not register and pay the conference fee to attend, as discussed previously in this travel expense section. The first conference was the SHRM Talent and Diversity Conference in San Francisco, California in October 2017, and second conference was the SHRM Conference in New Orleans, Louisiana in April 2018. These purchases were personal and not for SARTA purposes.
3. We also identified Ms. Williams and Ms. Pryor attended the Ohio SHRM Human Resource Conference at the Kalahari Resort in Sandusky, Ohio in September 2017. Ms. Williams and Ms. Pryor pre-registered for the conference and prepaid their hotel reservations in July 2017. In addition, both employees received their meal per diem reimbursement for the conference on August 31, 2017. However, upon arriving for the conference, both Ms. Williams and Ms. Pryor used a SARTA-issued credit card to purchase a "Fantastic Family Getaway for 4" package, totaling \$280 each, which included meals and passes to the Kalahari Resort waterpark. The purchase of the additional package appears to be a personal expense and not related to SARTA purposes.
4. Ms. Pryor also used the SARTA-issued credit card to make \$287 in airfare upgrade and flight changes that appear to be personal and not for SARTA purposes. On one occasion, Ms. Pryor purchased airfare to attend the 2016 SHRM Annual Conference in Washington, DC in June 2016. Ms. Pryor changed the departure date twice, resulting in change fees totaling \$145. The reason for these changes appear to be personal and not related to SARTA operations. Ms. Pryor also used the SARTA-issued credit card for hotel accommodations for the Ohio Safety Congress in Columbus, Ohio in March 2016. Ms. Pryor made hotel accommodations for her and another SARTA employee prior to the conference; however, Ms. Pryor later canceled her reservation and made other reservations at the OSU Blackwell Hotel. The original hotel cost totaled \$335; however, the OSU Blackwell Hotel accommodations totaled \$468. While SARTA does not follow government standard rates for hotel accommodations, we determined the hotel change to be personal and not for SARTA purposes, resulting in a \$133 unauthorized purchase.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Total Credit Card Purchases Examined



Total Misappropriation of Credit Cards



Payroll Disbursements

In September 2014, Kristy Williams became SARTA's Human Resource Director. She had been the Human Resource Administrator since August 2010. SARTA required the Human Resource Director to have a bachelor's degree. Ms. Williams submitted a resume and cover letter for the Human Resource Director position and identified on her resume that she had obtained a bachelor's degree from the American InterContinental University (AIU) in 2011. Ms. Williams received tuition reimbursements between May 2010 and March 2011 from SARTA based on documents she provided for the completion of an undergraduate degree from the AIU. Additionally, Ms. Williams provided documents to SARTA for tuition reimbursements from September 2015 through March 2018 for courses completed at AIU related to a master's degree.

Our investigation uncovered Ms. Williams submitted fraudulent and fictitious college transcripts, tuition invoices, and degree records as well as a fraudulent resume to SARTA. Records obtained from AIU indicated Ms. Williams had not completed her undergraduate degree and did not take any further classes for a master's degree. As a result, Ms. Williams received a promotion to a position for which she didn't meet the criteria, and SARTA paid an additional \$113,503 in salary for Ms. Williams as the Human Resource Director and the subsequent promotion of Brandy Pryor to the Human Resource Administrator position.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective 2

Examine whether disability insurance and Home Energy Assistance Program (HEAP) benefits were properly received during the Period.

PROCEDURES

We performed computer forensics and examined disability insurance and federal grant documents to determine whether Ms. Williams properly received disability insurance and Home Energy Assistance Program (HEAP) benefits during the Period.

RESULTS

Disability Insurance / Federal Home Energy Assistance Program

Computer forensic analysis completed on Kristy Williams' SARTA-issued computer revealed Ms. Williams created and submitted altered and fictitious documents to receive short term disability benefits from Guardian Insurance and federal home energy assistance benefits through the Home Energy Assistance Program (HEAP).

Ms. Williams received disability benefit payments while on maternity leave from Guardian Insurance from May 9, 2016 through September 12, 2016, totaling \$20,696. On May 3, 2016, Ms. Williams fraudulently submitted a salary change for herself to Guardian Insurance to increase her salary to \$41.08 per hour, which was confirmed through SIU computer forensic analysis. Based on pay statements obtained from SARTA, Ms. Williams was actually paid \$35.35-\$36.42 per hour. In addition, the investigation discovered that while Ms. Williams was receiving disability benefits from Guardian Insurance, she was also receiving her salary, accumulated sick, vacation, and holiday leave pay from SARTA. The Auditor of State's office does not have the authority to issue findings for recovery on behalf of Guardian Insurance. We examined the disability insurance benefits as part of the criminal investigation. Ms. Williams was ordered to pay \$20,696 to Guardian Insurance as part of the criminal restitution order.

The investigation also revealed Ms. Williams created fictitious SARTA paycheck stubs on her SARTA-issued computer and submitted the stubs to receive federal home energy assistance benefits totaling \$2,407 from Ohio Development Services Agency, the HEAP administrating agency. Ms. Williams provided the altered documents to HEAP indicating her pay rate at SARTA was \$10/hour from September 2013 through December 2014. However, upon review of Ms. Williams' payroll records maintained by SARTA, it was noted her actual pay rate during that period was \$25/hour.



APPENDIX
SCHEDULE OF FINDINGS FOR RECOVERY AND
MANAGEMENT RECOMMENDATIONS

APPENDIX

FINDINGS FOR RECOVERY

Tuition Reimbursements

SARTA maintained a tuition reimbursement program providing “an opportunity for employees to obtain additional education or training in order to increase their competence in their present jobs and to prepare for future advancement within the company.” The policy also stated employees were responsible for completing a tuition reimbursement application form and obtaining proper approval prior to the course starting. Any tuition reimbursement request submitted after the class started would be denied. Within 30 days of completion of the course, the employee was required to provide SARTA with an invoice identifying the fees charged and amount paid by the employee, and the grade/report card for the semester identifying the grade received in the course. SARTA would reimburse employees based on the grade received.

Kristy Williams and Brandy Pryor submitted fictitious college documents to obtain tuition reimbursement payments from SARTA in excess of authorized amounts as follows:

	Reimbursed Amount	Allowable Amount	Unallowable Amount
Kristy Williams	\$30,769	\$4,793	\$25,976
Brandy Pryor	\$20,158	\$5,416	\$14,742

Travel Expenses

SARTA's travel policy required all travel to be “planned and approved a minimum of three weeks prior to departure. Prior to making reservations, a travel form must be submitted to the department director and/or Executive Director/CEO for approval.” The travel policy also identified allowable expenses, including a meal per diem reimbursement, shuttle/transportation, hotel reservations, airfare/baggage fees, parking fees, and tolls. All purchases must be accompanied by acceptable receipts or other proofs of payment and an expense report. All receipts must be submitted within five days upon return.

Kristy Williams received the following unallowable travel reimbursements:

- Three mileage reimbursement payments totaling \$370, not supported with documentation; therefore, we were not able to verify the amount of mileage reimbursement was accurate;
- One \$80 airport shuttle reimbursement payment in which Ms. Williams drove to the conference rather than flying. Therefore, the shuttle reimbursement would not be allowable; and
- Two meal per diem reimbursements, totaling \$571, to attend two human resource related conferences, one in October 2017 and one in April 2018; however, we were not able to identify that conference fees were paid for Ms. Williams to attend those conferences.

Brandy Pryor received the following unallowable travel reimbursements:

- Two meal per diem reimbursements totaling \$220 for which we were not able to identify any overnight stays associated with Ms. Pryor's travel; and
- One mileage reimbursement payment was not calculated correctly, resulting in a \$3 overpayment.

Improper Credit Card Purchases

SARTA's credit card policy states, “...credit cards are to be used for SARTA business only...any receipt not forwarded by receipt of the charge card statement will be assumed to be improper charges and will be collected from the employee making said charge on the employee's first pay following said billing. Improper charges or unauthorized charges may subject employees to prosecution under state statutes and/or disciplinary measures, up to and including dismissal.” In addition, SARTA provided a Wellness Program for employees who stopped smoking and remained tobacco free. SARTA would administer random testing of employees and then provide rewards to qualifying employees.

Kristy Williams was responsible for administering SARTA's Wellness Program, which included purchasing testing strips and other non-smoking products, and testing employees. During the Period, we identified 216 Rite Aid purchases totaling \$240,134 on SARTA-issued credit cards and noted none of the items purchased were associated with the purchase of testing strips or other non-smoking products. The items purchased included VISA and miscellaneous vendor gift cards, food, beverages, cosmetics, cleaning supplies and other miscellaneous items, which were all determined to be personal and not for SARTA purposes.

APPENDIX

Ms. Williams also made the following unallowable purchases on SARTA-issued credit cards:

- \$8,666 related to unallowable travel to conferences and seminars;
- \$24,211 in purchases not supported with an original receipt; therefore, we were not able to determine whether the items purchased were proper and for SARTA purposes; and,
- \$7,926 in vendor gift cards or gift card reloads, food and other miscellaneous items that appear to be personal and not for SARTA operations.

Ms. Pryor made the following unallowable purchases on SARTA-issued credit cards:

- \$1,224 in unallowable transportation costs, food, hotel upgrades, and other miscellaneous travel expenses not for SARTA purposes; and,
- \$2,950 in vendor gift cards, food, and other miscellaneous items.

We also identified seven credit card purchases, totaling \$1,107, for personal expenses incurred for the benefit of other SARTA employees and not for SARTA business purposes. Of the seven credit card purchases,

- Two purchases, totaling \$188, were made by a SARTA employee and do not appear to be for a proper SARTA purpose; and,
- Five purchases, totaling \$919, on a SARTA-issued credit card, we were not able to determine which SARTA employee made the purchases and do not appear to be for a proper SARTA purpose.

Human Resource Director Salary

SARTA has established certain requirements that applicants must meet to be eligible for a Director position. For the Human Resource Director position, one of the requirements for applicants was a bachelor's degree from an accredited college or university.

Ms. Williams submitted a resume and cover letter for the Human Resource Director position and identified on her resume that she had obtained a bachelor's degree from the American InterContinental University (AIU) in 2011. An investigation uncovered Ms. Williams submitted fraudulent and fictitious college records as well as a fraudulent resume to SARTA to obtain the Human Resource Director position, to which she was promoted in September 2014. Further, as a result of Ms. Williams' promotion, Brandy Pryor was also promoted to fill her previous position. Ms. Williams cost SARTA \$113,503 as a result of her fraudulently obtained promotion.

Federal Home Energy Assistance Fraud

Households with income at or below 175 percent of the federal poverty guidelines are eligible for a federally funded program that provides Ohioans assistance with their home energy bills.

Our investigation revealed Ms. Williams provided altered payroll documents and received federal home energy assistance benefits totaling \$2,407 from the Home Energy Assistance Program (HEAP).

Findings for Recovery Conclusion

On May 18, 2020, Judge Frank Forchione ordered restitution of \$406,594 against Kristy Williams in Case # 2020CR0581A and on June 29, 2020, Judge Forchione ordered restitution of \$14,742 against Brandy Pryor in Case # 2020CR0581B. However, \$20,696 was ordered in favor of Guardian Insurance (a non-governmental entity) related to the disability insurance fraud and therefore will be excluded from the finding for recovery total below.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public property converted or misappropriated is hereby issued against Kristy Williams in the amount of \$385,898, and Brandy Pryor in the amount of \$14,742, and in favor of the Stark Area Regional Transit Authority in the amount of \$398,233 and in favor of the Ohio Development Services Agency in the amount of \$2,407.

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In addition to the restitution order, in accordance with the foregoing facts from the special audit and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public property converted or misappropriated is hereby issued against Kristy Williams in the amount of \$37,946 and Brandy Pryor in the amount of \$4,397; and a finding for recovery for public monies illegally expended is hereby issued against Kirt Conrad in the amount of \$919 and Tammy Brown in the amount of \$188, all in favor of Stark Area Regional Transit Authority.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Board Resolution #35-2015 authorizes the Executive Director/CEO to implement the credit card policy. Executive Director, Kirt Conrad, was responsible for implementing the credit card policy and ensuring SARTA established a proper system of controls over the use of the credit cards.

During the Period, Mr. Conrad served as SARTA's Executive Director and was responsible for supervising SARTA staff responsible for making purchases, payments on credit card accounts, maintaining support for disbursements, and developing and implementing proper credit card procedures to ensure purchases directly relate to the official operations of SARTA.

Accordingly, Mr. Conrad will be jointly and severally liable in the amount of \$188 and in favor of Stark Area Regional Transit Authority.

On October 15, 2020, Mr. Conrad repaid \$1,107 to SARTA and the payment was deposited to SARTA's operating account.

MANAGEMENT RECOMMENDATIONS

Records Retention

Ohio Rev. Code § 149.351(A), states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, destroyed, mutilated, or transferred unlawfully. SARTA's records retention requires vouchers, invoices and purchase orders be maintained for at least three years, or when no longer administratively necessary.

The following records were not maintained by SARTA:

- Six of 15 tuition reimbursement application forms and payment support documents were not maintained;
- One of 37 travel reimbursement payment support documents were not maintained;
- 340 of 683 credit card transactions did not have charge receipts, original cash register slips, or the detailed receipts or invoices. Our investigation identified instances where SARTA identified missing itemized receipts for credit card purchases; however, never followed up with the credit card user or reported issues to management to ensure the supporting documentation was obtained; and,
- Credit card sign in and out forms were not maintained and we were not able to determine the individual who made 192 of 516 credit card purchases on a SARTA-issued credit card.

Lack of supporting documentation for disbursements limits management's ability to review and approve transactions and increases the risk of errors. Failure to adequately control and maintain documents could result in the inability to review prior transactions for accuracy or fraud.

We recommend SARTA take measures, including establishing specific control procedures, to ensure all records are adequately safeguarded and maintained.

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Public Records Policy

Ohio Rev. Code § 149.43(E) provides that all public offices shall adopt a public records policy for responding to public records requests. In adopting a public records policy, a public office may obtain guidance from the model public records policy developed and provided to the public office by the attorney general under § 109.43 of the Revised Code. Except as otherwise provided in this section, the policy may not limit the number of public records that the public office will make available to a single person, may not limit the number of public records that it will make available during a fixed period of time, and may not establish a fixed period of time before it will respond to a request for inspection or copying of public records, unless that period is less than eight hours.

Furthermore, the public office shall distribute the public records policy adopted by the public office to the employee of the public office who is the records custodian or records manager or otherwise has custody of the records of that office. The public office shall require that employee to acknowledge receipt of the copy of the public records policy. The public office shall create a poster that describes its public records policy and shall post the poster in a conspicuous place in the public office and in all locations where the public office has branch offices. The public office may post its public records policy on the internet web site of the public office if the public office maintains an internet web site. A public office that has established a manual or handbook of its general policies and procedures for all employees of the public office shall include the public records policy of the public office in the manual or handbook.

During the Period, SARTA did not have a public records policy.

By not adopting a public records policy, SARTA risks being in noncompliance with public records laws. All employees need to be aware of the public records laws and what procedures to follow when a member of the public requests to examine public records.

We recommend SARTA adopt a public records policy that is modeled after the example published by the Ohio Attorney General. The model public records policy is available on the Attorney General's website. This policy should be distributed to SARTA employees and posted at SARTA or available on SARTA's internet website. SARTA should identify a records custodian or records manger. SARTA should also consider having the records custodian or records manager attend public records training.

Rewards Card Policy

Ohio Rev. Code § 102.03(D) provides that no public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public employee with respect to that person's duties.

Additionally, **Ohio Rev. Code § 102.03(E)** states that no public official or employee shall solicit or accept anything of value that is of such character as to manifest a substantial and improper influence upon the public employee with respect to that person's duties. The term "anything of value" is defined to include money and every other thing of value. Discounts on future purchases and other things of value offered as reward program incentives are considered things of value.

Rewards program benefits are of such a character to manifest a substantial and improper influence upon the employee with respect to their duties. It is foreseeable that a public employee could select a particular vendor from which to make purchases in order to accumulate rewards benefits on their personal rewards card and, by doing so, a higher expense for the public agency.

During the Period, SARTA did not have a formal written policy governing rewards programs. In addition, we noted several reward card numbers on Rite Aid receipts that were a personal rewards card of Kristy Williams. These accumulating reward points can then be redeemed for personal use.

Failure to have policies on such purchases could result in findings for recovery in future audits as well as referrals to the Ohio Ethics Commission.

SARTA should establish and adopt a formal policy prohibiting the use of personal rewards cards while making SARTA purchases.

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Credit Cards

SARTA's credit card policy governing the use of credit cards during the Period states in part, "Credit cards may be checked out from the Accounting Administrator or Director of the Finance and Administration Department. Each Department Director will be responsible for authorizing all purchases and charges incurred on their credit card. Charge slips or receipts will be forwarded to the Accounts Payable Administrator immediately. Any receipts not forwarded by receipt of the charge card statement will be assumed to be improper charges and will be collected from the employee making said charges on the employee's first pay following said billing." In addition, the credit card policy was updated in May 2015 and indicated, "Credit cards may be signed out after the requestor has received a purchase order number or a requisition number."

During the Period, SARTA had 31 open credit card accounts issued in the names of various employees and departments. SARTA's credit card policy required employees to sign in and out credit cards; however, the control was not consistently enforced, and we identified 192 purchases on credit cards not signed out. Also, credit card purchases did not always have the appropriate purchase order or requisition number prior to the purchase being made. In addition, SARTA's credit card policy did not contain guidance regarding allowable expenses and limitations. SARTA management did not review monthly credit card statements to ensure items purchased were properly supported and allowable. As a result, supporting documentation for credit card purchases was missing or not maintained. Of the 683 credit card purchases examined, 340 (49.7%) were not properly supported with original invoices or itemized receipts. Not maintaining documentation made it difficult to determine the nature of certain charges and whether each related to the operations of SARTA.

It was management's responsibility to implement internal controls to reasonably ensure credit card transactions were supported, accurately recorded and for SARTA purposes. Management was also responsible for monitoring these control procedures to verify they were operating effectively.

Failure to provide detailed guidance addressing required supporting documentation and allowable expenditures, and failing to review transactions resulted in personal purchases being paid by SARTA.

We recommend SARTA implement additional controls over the use of credit cards. To be effective, the performance of an internal control must be sufficiently documented to provide assurance the control was in place and functioning as intended. We recommend SARTA limit the use of credit cards and significantly decrease the number of open credit card accounts. To further enhance SARTA's management over remaining credit card activity, we recommend the following:

- SARTA should establish updated procedures relating to credit card transactions that specifically address items such as allowable and prohibited expenditures, and required documentation, including the submission of original, itemized receipts;
- SARTA should establish procedures for review and approval of credit card transactions and specifically designate those individuals required to review and approve transactions to ensure sufficient documentation is provided to support the nature and business purpose of credit card charges prior to paying bills; and,
- SARTA should inform and provide training to each card user regarding the credit card policies and procedures to ensure users are aware of and understand the requirements. Signed acknowledgements should be obtained from all card users stating they received the training.

Travel Expenses

SARTA's travel policy required all travel to be "planned and approved a minimum of three weeks prior to departure. Prior to making reservations, a travel form must be submitted to the department director and/or Executive Director/CEO for approval." The travel policy also identified allowable expenses, including a meal per diem reimbursement, shuttle/transportation, hotel reservations, airfare/baggage fees, parking fees, and tolls. All purchases must be accompanied by acceptable receipts or other proofs of payment and an expense report. All receipts must be submitted within five days upon return.

We noted noncompliance with SARTA's travel policy. Of the 37 employee travel reimbursements examined:

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- 12 travel request forms were not properly approved (including not signed and not signed/dated within the policy guidelines);
- One travel request form was not maintained;
- Four travel request forms were signed; however, the date of the approval was not documented. Therefore, we were not able to determine whether the approval occurred at least three weeks prior to the travel date;
- 88 of 167 travel expense purchases examined on SARTA credit cards were not properly supported; and,
- \$9,890 in unallowable travel expenses on SARTA credit cards were identified during the Period. These charges included unallowable transportation expenses, hotel upgrades, food, conferences not attended, and other miscellaneous expenses not for SARTA purposes.

It was management's responsibility to implement internal controls to reasonably ensure expenditures were supported, accurately recorded and for SARTA purposes. Management was also responsible for monitoring these control procedures to verify they were operating effectively.

Failure to provide detailed guidance addressing required supporting documentation and allowable expenditures, and failing to review transactions resulted in unallowable purchases being paid by SARTA.

We recommend SARTA review their current travel policy and establish internal controls that ensure policy requirements are being followed. Management should also monitor the control procedures to ensure they are in place and operating as management intended. In addition, SARTA should inform and provide training to each employee regarding the travel policies and procedures to ensure users are aware of and understand the requirements and allowable expenses.

Tuition Reimbursement Policy

SARTA maintained a tuition reimbursement program during the Period providing "an opportunity for employees to obtain additional education or training in order to increase their competence in their present jobs and to prepare for future advancement within the company." According to SARTA's tuition reimbursement policy, employees were responsible for completing a tuition reimbursement application form and obtaining proper approval prior to the course starting. Any tuition reimbursement request submitted after the class has started will be denied. Within 30 days of completion of the course, the employee is required to provide SARTA with an invoice identifying the fees charged and amount paid by the employee, and the grade/report card for the semester identifying the grade received in the course. SARTA reimbursed employees based on the grade received.

During the Period, SARTA paid 15 tuition reimbursement payments totaling \$50,927 that did not contain the appropriate supporting documentation and/or proper approvals on the tuition reimbursement form. Of the 15 payments:

- Six were not supported with the required tuition reimbursement application form;
- Four tuition reimbursement application forms were not approved;
- Four tuition reimbursement application forms were not approved prior to the beginning of course work;
- Three tuition reimbursement application forms were approved; however, were not approved by the proper management, as outlined in the tuition reimbursement policy; and,
- Nine were not supported with final grades from the school and invoice of fees charged to support the tuition reimbursement was paid according to the tuition reimbursement policy guidelines.

As a result of our investigation, we identified \$40,718 in fraudulent tuition reimbursement payments.

It was management's responsibility to implement internal controls to reasonably ensure payments were supported, accurately recorded, and for SARTA purposes. Management was also responsible for monitoring these control procedures to verify they were operating effectively.

APPENDIX

Failure to provide detailed guidance addressing required supporting documentation and allowable expenditures, and failing to properly review and approve transactions resulted in unallowable purchases being paid by SARTA.

We recommend SARTA review their current tuition reimbursement policy and establish internal controls that ensure policy requirements are being followed. Management should also monitor the control procedures to ensure they are in place and operating as management intended.

Proper Public Purpose

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that expenditures made by a governmental unit should serve a public purpose. Typically, the determination of what constitutes a "proper public purpose" rests with the judgment of the government entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

We examined credit card purchases made on SARTA-issued credit cards by SARTA employees during the Period. We identified 448 of 683 (65.6%) purchases that lacked sufficient evidence to support the expenditure or substantiate proper public purpose. Items purchased include vendor gift cards, food, beverages, cosmetics, cleaning supplies, decorations, hotel and flight upgrades, and other miscellaneous travel expenses not for SARTA purposes. In addition, we identified 22 of 52 (42.3%) travel and tuition reimbursements that were not for a proper public purpose.

SARTA does not have a policy that describes the appropriateness of expenditures regarding an acceptable proper public purpose. In the absence of such policy, expenditures that do not promote the goals or mission of SARTA or work to achieve such goals or mission may inadvertently be entered into and approved by SARTA.

We recommend SARTA adopt a comprehensive proper public purpose policy that provides guidance and direction to SARTA management and staff as to what expenditures are viewed to be for a proper public purpose that accomplish the goals and mission of SARTA.

In addition, we recommend SARTA maintain a list documenting the distribution of any gift cards purchased with public funds and also note that, if given to SARTA employees, they may be taxable. SARTA should consult with their legal counsel regarding the tax liability of gifts to employees.

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OHIO AUDITOR OF STATE KEITH FABER



STARK AREA REGIONAL TRANSIT AUTHORITY

STARK COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 11/5/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov

Special Assessments & Tax Abatements

Agenda

- ▶ What are special assessments
- ▶ Who has the legal authority to issue them
- ▶ Process for levying a special assessment
- ▶ What is a tax abatement
- ▶ Who has legal authority to request it
- ▶ Process for granting a tax abatement

Special Assessment Defined

- ▶ A special assessment is separate and distinct from property tax millage
- ▶ Typically, a special assessment is a charge for a public improvement that will benefit specific parcel(s)
- ▶ Allows a municipality to assess an additional charge on parcels that benefit from service
- ▶ The power to levy and collect special assessments resides in ORC 727

Special Assessment Who May Levy & Purpose

- ▶ Currently only municipal corporations have special power to levy and collect special assessments (certain exceptions)
- ▶ Assessments may be made upon abutting, adjacent and contiguous, or other specifically benefited lots of land connected with some type of improvement
- ▶ There are many purposes under which a municipal corporation may levy a special assessment.
 - ❑ Infrastructure Improvements
 - ❑ Special Improvement Districts

Special Assessment Who May Levy & Purpose

- ▶ There are many purposes under which a municipal corporation may levy a special assessment.
 - ❑ Broadband expansion (gap funding)
 - ❑ Municipal Ordinance for weeds, litter, delinquent utilities
- ▶ ORC sections
 - ❑ ORC 727 - Assessments General
 - ❑ ORC 731.54 - Lien Upon Property
 - ❑ ORC 3746.01 - Voluntary Action

Special Assessment Who May Levy & Purpose

- ▶ ORC sections
 - ❑ ORC 1710 - Special Improvement District
 - ❑ ORC 717.05 - Off-street Parking
 - ❑ ORC 122.40 - Residential Broadband expansion
 - ❑ ORC 5543.10 - Sidewalks Curbs & Gutters (exception)

Special Assessment Process

- ▶ Special Assessments may be levied under the following methods
 - ❑ Percentage of tax value of the property assessed
 - ❑ In proportion to the benefits that result from the improvement
 - ❑ By the front foot of the property bounding and abutting upon the improvement
 - ❑ Charges for services

Special Assessment Process

- ▶ Legislative action
 - ❑ Establishment of a District
 - Shade Tree 727.011
 - Ditches 727.012
 - Special Improvement District 1710
 - ❑ Project or Direct Cost
 - Relocation of overhead cables, wires and appurtenant equipment 727.013
 - 50% of repaving costs of streets 727.04
 - Principal and interest on bonds issued for off-street parking
 - ❑ Petition by 60% of owners 727.06

Special Assessment Process

- ▶ Legislative action
 - ❑ Payment schedule authorization
 - ❑ Resolution declaring necessity for such improvement
 - ❑ Notice of the passage of the resolution of necessity to property owners
 - ❑ Pass a resolution stating the intent of the legislative authority to proceed & adopt the estimated assessment
 - ❑ Track owner objections
 - ❑ Appointment of an assessment equalization board

Special Assessment Limitations

▶ Limitations

- ❑ Grade assessment changes
- ❑ Generally, cannot exceed 33.3% of the actual value of such lot or parcel
- ❑ Repaving of streets shall not exceed 50% of the cost
- ❑ Real estate purchases not more than 50%
- ❑ May not exceed the estimated usefulness of the improvement
- ❑ Within fifteen days of adoption financial hardship may be claimed
- ❑ Any assessments of \$25 or less are not permissible for installments

Tax Abatements Defined

- Abatements are tax incentives in form of exemptions from paying taxes on all or part of property taxes.
 - ❑ Agreement between one or more governments and an individual or entity
 - ❑ One or more governments forgo tax revenue in exchange for public improvement that contributes to economic development or otherwise benefits the government or citizens
 - ❑ Benchmarks are established to ensure proper return on investment for granting the exemption

Tax Abatements Legislation

- Under ORC 3735 the legislative authority adopts a resolution describing the boundaries of the CRA and statement of finding that new housing construction and repair of existing facilities and structures are discouraged.
- There are two types of CRAs, Pre-1994 and Post-1994.
- The following will focus on Post-1994 followed by the differences between the two.

Tax Abatements Legislation

- Post 1994 CRA Creation
 - ❑ The legislative authority of a municipality or county passes a resolution that:
 - Describes the boundaries of the CRA and a statement of finding.
 - Stipulates the property classifications eligible for exemption.
 - Provides the term and extent of the real property exemptions for residential properties.

Tax Abatements Legislation

- Post 1994 CRA Creation
 - ❑ The legislative authority designates a housing authority
 - ❑ The resolution is filed with the Ohio Director of Development Services and once approved tax exemption may be granted.
 - ❑ Property owners within the designated CRA may file an application for real property tax exemption with the local housing authority.

Tax Abatements Legislation

- Post 1994 CRA Creation
 - ❑ For commercial and industrial applications, approval for tax exemption cannot be authorized until:
 - The legislative authority and property owner have entered into a written agreement under ORC 3735.671.
 - If the percent exempted is greater than 50%, the board of education must approve the agreement which may include negotiated terms for the school.
 - For municipalities with an income tax, a revenue sharing agreement with the school is also required if new annual payroll will be \$1 million or more, or the new income tax revenue will be split 50/50.

Tax Abatements Legislation

- Post 1994 CRA Creation
 - ❑ For commercial and industrial applications, approval for tax exemption cannot be authorized until:
 - After all agreements are authorized, they are submitted to the Ohio Director of Development Services for enforcement of 3735.671.
 - The housing officer will verify the costs and facts asserted in the application for exemption.
 - The housing officer will also determine that all requirements have been met for the exemption.
 - The application is then filed with the County Auditor certifying the division of ORC 3735.67 the exemption is granted.

Tax Abatements Legislation

- Post 1994 CRA Creation
 - ❑ For residential applications, the terms are set forth in the CRA resolution.
 - ❑ The housing officer reviews the residential application verifying the cost, a determination for exemption, and files the application with the County Auditor.

Tax Abatements Levels and Terms

- Residential
 - ❑ Remodeling minimum of \$2,500 up to 100% for up to 10 years.
 - ❑ Remodeling minimum of \$5,000 up to 100% for up to 12 years.
 - ❑ New construction up to 100% for up to 15 years.
 - ❑ Limits would be established in the resolution

Tax Abatements Levels and Terms

- Commercial and Industrial
 - ❑ Remodeling minimum of \$5,000 up to 100% for up to 12 years.
 - ❑ New construction up to 100% for up to 15 years.
 - ❑ These terms will be negotiated

Tax Abatements Pre-1994 Difference

- Pre-1994 did not require authorization of the Director of Development.
- The percentage exemption and property classifications are not flexible.
- No Board of Education approval or negotiation required only a courtesy notice 14 days before filing the exemption with the County Auditor.

Tax Abatements Pre-1994 Difference

- No ability to negotiate, the terms within the authorizing legislation were required to be applied.
- No incentive agreements required with the property owner granted the exemption.
- No relocation restrictions placed on the property owner.

Tax Abatements Financial Implications

- No new taxes on the parcel until the abatement rolls of.
- Management of Developer and School District agreements.
- Obtaining income tax data for new payroll.
- Obtaining program data from the property owner to ensure incentive agreements are adhered to.

Tax Abatements Financial Implications

- Annual reporting to the Tax Incentive Review Committee.
- Reporting under GASB 77.
 - ❑ Disclosing the nature and magnitude of tax abatements will better equip users with information to determine how tax abatements affect a governments ability to raise resources and meet financial obligations.
 - ❑ The impact abatements have on the financial position and economic condition of the government.
 - ❑ Distinguish between those entered into by the government and those entered into by another government

Tax Abatements Financial Implications

- Reporting under GASB 77.
 - ❑ Can be provided individually or aggregated
 - ❑ Agreements entered into by the government should be organized by major program
 - ❑ Agreements entered into by another government should be organized by government entering the agreement and type of tax abated
 - ❑ Disclosure starts when agreement is entered and ends when it expires

Tax Abatements Financial Implications

- Reporting under GASB 77.
 - ❑ Names and purposes of the abatement programs
 - ❑ Specific taxes being abated
 - ❑ Legal authority under which abatement is granted
 - ❑ Criteria which makes recipient eligible
 - ❑ Mechanism by which taxes are abated
 - How are the taxes reduced?
 - How is the amount of the abatement determined?

Tax Abatements Financial Implications

- Reporting under GASB 77.
 - ❑ Recapture provisions?
 - ❑ Commitments made by recipients
 - ❑ Gross amount reduced during the reporting period
 - ❑ If amounts are received or receivable from other governments
 - Names of governments
 - Authority under which the amounts were or will be paid
 - Dollar amount received or receivable

Tax Abatements Financial Implications

- Reporting under GASB 77.
 - ❑ If agreements are disclosed individually, brief description of quantitative threshold determination
 - ❑ If legally prohibited from disclosing some specific information describe information omitted and source of legal prohibition
 - ❑ Disclosure Requirements for Government that is affected by another government entering agreement
 - Name of government that entered agreement and specific tax abated
 - Dollar amount of reduction in the current year
 - If amounts are received or receivable from other governments


Tax Abatements Financial Implications

- Reporting under GASB 77.
 - ❑ Disclosure Requirements for Government that is affected by another government entering agreement
 - Names of governments
 - Authority under which the amounts were or will be paid
 - Dollar amount received or receivable
 - If agreements are disclosed individually, brief description of quantitative threshold determination
 - If legally prohibited from disclosing some specific information describe information omitted and source of legal prohibition

Tax Abatements Financial Implications


- Reporting under GASB 77.
 - ❑ What is dollar amount
 - Accrual method is required
 - Difficult for Ohio property taxes
 - Most likely not material

Cyber Security




Cyberattack

- Theft of data is a significant concern for all of us.
- Personal data of anyone can be used on the dark web, children's data can be more valuable as financial accounts created may not be discovered for years
- Local governments are 44% more likely to be targeted for a ransomware attack than any other type of organization!!!



Cyberattack

- Atlanta & Baltimore > \$15 million
- City of Stuart Florida (16,000 res) did not pay ransom recovery took over 2,000 staff hours
- Ohio Unemployment – over 1,500 checks sent to same address!!
- Licking County – lost all communication
- Ohio School District – phishing payroll < \$100,000
- NCOESC – Ebay gift cards \$500

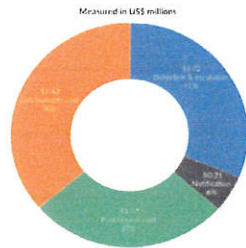


Cyberattack

- We are soft targets
 - Small governments may lack IT departments
 - Many services therefore more access points
 - Sensitive data
 - Provide essential services that cant be down



Data Breach Cost

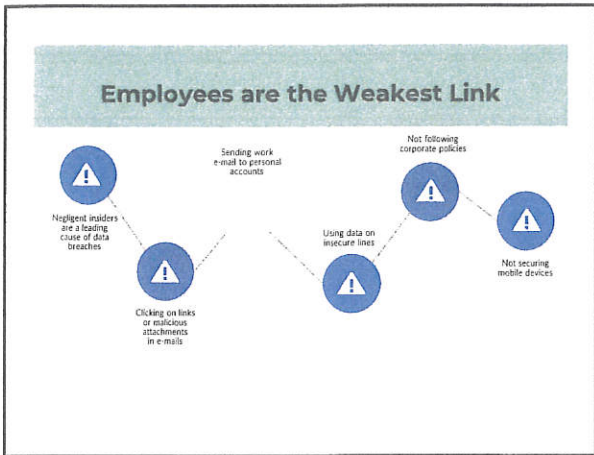


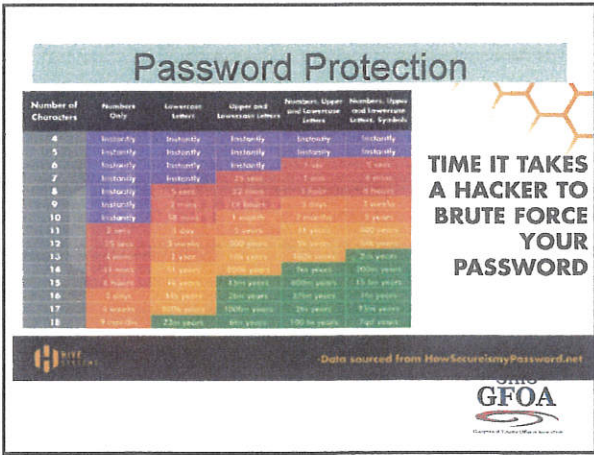
5

Threats

Phishing, Web & Ransomware	Compromised Credentials	Weak Passwords
Trust Relationships & Propagation	Poor Encryption	Unpatched Vulnerabilities
Misconfigurations	Malicious Insiders	Zero Day & Unknown Methods

A 3x3 grid of blue boxes, each containing an icon and a text label representing a common cybersecurity threat. The threats listed are: Phishing, Web & Ransomware; Compromised Credentials; Weak Passwords; Trust Relationships & Propagation; Poor Encryption; Unpatched Vulnerabilities; Misconfigurations; Malicious Insiders; and Zero Day & Unknown Methods.





Ransomware

- Type of malicious attack where attackers encrypt an organizations data and demand payment to restore access.

Ransomware

- Median cost in 2021 \$98,000
- Average cost in 2021 \$267,000
- 10% cost over \$600,000
- Costs are going up as level of sophistication increases



Ransomware

- Do we pay?
- Perpetrators are highly skilled
- Perpetrators are known to authorities
- List of those who are "good" thieves
 - History of returning data after payment



Risk Management

- Controls vs Insurance
 - Many tools for controls
 - Self insurance amount?
 - Do we buy insurance?
- Cost vs Benefit
 - Prevent or Remediate



Tools

- Multifactor Authentication
- Encryption of stored data
- Secure VPN
- Endpoint protection and response
- Phishing/ Cyber Awareness Training
- Email filtering
- Patch Management
- Firewalls
- Disaster Recovery/ Backups



Risk Mitigation vs Risk Transfer

- Assessment – know your systems
- Quantification – what is our risk?
 - gfoa.org/cyber-insurance
- Examine Insurance possibilities
 - Limits
 - Exclusions
 - Retentions
- Reassess



Cyber Insurance

- Operational Risks
 - Network Business Interruption
 - System Failure
 - Cyber Extortion
 - Digital Asset Restoration



What is Cyber Insurance?

First Party

- Breach Consultation
- Data Forensics
- Public Relations
- PCI Expenses
- Network Extortion
- Data Restoration
- Business Interruption
- System Failure

Third Party

- Network Security and Privacy Liability Coverage
- Media Liability Coverage



Insurance Coverages

- Network Security and Privacy Liability Risks
 - Privacy Liability
 - Security Liability
 - Privacy Regulatory Fines and Penalties
 - PCI Fines & Penalties
 - Breach Event Expenses



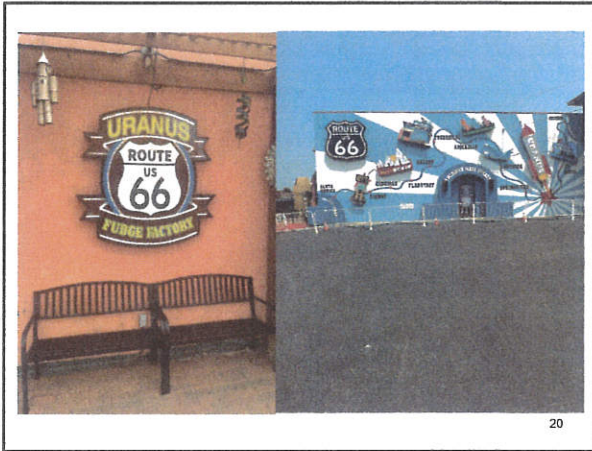
Insurance Coverages

- Misc Cybercrime Insurance Coverages
 - Reputational Income Loss
 - Claims Avoidance
 - Reward payment
 - Betterment

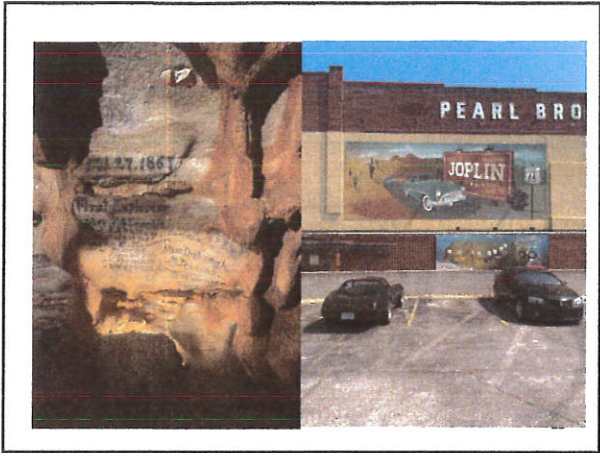


<https://threatmap.checkpoint.com/>

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GASB 94

PUBLIC-PRIVATE AND PUBLIC-PUBLIC PARTNERSHIPS (PPP) AND AVAILABILITY PAYMENT ARRANGEMENTS (APA)




EFFECTIVE DATE AND TRANSITION

- Effective for fiscal years beginning after June 15, 2022 (fiscal year 2023 and calendar year 2023). Early application is encouraged
- PPPs should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation.



WHY GASB 94

Arrangements between governments and private entities or other governments have become more prevalent. Those arrangements, often referred to as public-private or public-public partnerships (collectively, PPPs), generally result in the government transferring the obligation to provide certain public services to an external entity. Prior to the issuance of this Statement, specific guidance applicable to PPPs included Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, as amended. However, Statement No. 60 did not address all types of PPPs. As a result, stakeholders inquired about the proper reporting for those transactions.



PPP DEFINITION

For purposes of applying this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by **conveying control of the right to operate** or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.



PPP DEFINITION (CONTINUED)

Some PPPs are service concession arrangements. An SCA is a PPP arrangement between a transferor and an operator in which all of the following criteria are met:

- The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
- The operator collects and is compensated by fees from third parties.
- The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide services, and the prices or rates that can be charged for the services.
- The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.



GASB 94 EXCLUSION

A government that has a PPP that meets the definition of a lease should apply the accounting and financial reporting guidance in Statement No. 87, as amended, if

- Existing assets of the transferor are the only underlying PPP assets,
- Improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement, and
- The PPP does not meet the definition of an SCA.



PPP TERM

- Period during which an operator has a **noncancellable** right to use an underlying PPP asset, plus the following periods, applicable:
 - Operator's option to extend if it is reasonably certain it will exercise
 - Operator's option to terminate if it is reasonably certain it will **not** exercise
 - Transferor's option to extend if it is reasonably certain it will exercise
 - Transferor's option to terminate if it is reasonably certain it will **not** exercise
- Periods for which both the operator and the transferor have an option to terminate without permission from the other party are cancellable and are excluded from the term.



TRANSFEROR RECOGNITION AND MEASUREMENT

If the underlying PPP asset is an existing asset of the transferor:

- Continue to recognize the underlying PPP asset (if agreement requires operator to return asset in same or better condition, then do not depreciate)
- Record receivable for installment payments, if any, to be received in relation to the PPP
- Record deferred inflow of resources
- Record asset and deferred inflow of resources for improvements placed into service



TRANSFEROR RECOGNITION AND MEASUREMENT

If the underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA, the transferor should recognize:

- Record asset for the purchased or constructed asset at **acquisition value** when the asset is placed into service (if agreement requires operator to return asset in same or better condition, then do not depreciate)
- Record receivable for installment payments, if any, to be received in relation to the PPP
- Record deferred inflow of resources



TRANSFEROR RECOGNITION AND MEASUREMENT

If the underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does NOT meet the definition of an SCA, the transferor should recognize:

- Record receivable for the underlying asset purchased or constructed to be received from the operator. Measurement should be based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership.
- Record receivable for installment payments, if any, to be received in relation to the PPP
- Record deferred inflow of resources



TRANSFEROR RECEIVABLE

A transferor initially should measure the receivable for installment payments at the present value of PPP payments expected to be received during the PPP term, including:

- Fixed payments
- Variable payments that depend on an index or rate
- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance



TRANSFEROR RECEIVABLE

- Future PPP payments should be discounted using the interest rate the transferor charges the operator. If the interest rate cannot be readily determined, the operator's estimated incremental borrowing rate should be used.
- In subsequent financial reporting periods, a transferor should calculate the amortization of the discount on the receivable for installment payments and report that amount as an inflow of resources (for example, interest revenue) for the period.
- Any PPP payments made should be allocated first to the accrued interest receivable and then to the receivable for installment payments.



TRANSFEROR RECEIVABLE - REMEASUREMENT

A transferor should remeasure the receivable for installment payments at subsequent financial reporting dates if one or more of the following changes have occurred, if significant:

- Change in PPP term;
- Change in the interest rate the transferor charges the operator;
- A contingency is resolved such that certain payments now meet the criteria for inclusion.



DEFERRED INFLOWS OF RESOURCES

A transferor subsequently should recognize the deferred inflow of resources as inflows of resources (for example, revenue) in a systematic and rational manner over the PPP term.



NOTE DISCLOSURES - TRANSFEROR

- A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which variable payments not included in the measurement of the receivable for installment payments are determined.
- The nature and amounts of assets and deferred inflows of resources
- The discount rate or rates applied to the measurement of the receivable for installment payments
- The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the receivable for installment payments.
- The nature and extent of rights retained by the transferor or granted to the operator.



OPERATOR RECOGNITION AND MEASUREMENT

If the underlying PPP asset is an existing asset of the transferor:

- Record liability for installment payments, if any, to be made in relation to the PPP
- Record intangible right-to-use asset



OPERATOR RECOGNITION AND MEASUREMENT

If the underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA, the operator should recognize:

- Record liability for installment payments, if any, to be made in relation to the PPP
- Record intangible right-to-use asset



OPERATOR RECOGNITION AND MEASUREMENT

If the underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does NOT meet the definition of an SCA, the operator should recognize:

- Record asset until ownership transfers to the transferor, if applicable
- Record liability for the underlying asset to be transferred to transferor. Measurement should be based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership.
- Record liability for installment payments, if any, to be received in relation to the PPP
- Record deferred outflow of resources



OPERATOR LIABILITY

An operator initially should measure the liability for installment payments at the present value of PPP payments expected to be made during the PPP term, including:

- Fixed payments
- Variable payments that depend on an index or rate
- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance



OPERATOR LIABILITY

- Future PPP payments should be discounted using the interest rate the transferor charges the operator. If the interest rate cannot be readily determined, the operator's estimated incremental borrowing rate should be used.
- In subsequent financial reporting periods, an operator should calculate the amortization of the discount on the liability for installment payments and report that amount as an outflow of resources (for example, interest expense) for the period.
- Any PPP payments made should be allocated first to the accrued interest liability and then to the liability for installment payments.



OPERATOR LIABILITY - REMEASUREMENT

An operator should remeasure the liability for installment payments at subsequent financial reporting dates if one or more of the following changes have occurred, if significant:

- Change in PPP term;
- Likelihood of a residual value guarantee being paid has changed from reasonably certain to no reasonably certain, or vice versa
- Change in estimated amounts for payments included in liability
- Change in the interest rate the transferor charges the operator, if used
- A contingency is resolved such that certain payments now meet the criteria for inclusion.



OPERATOR RIGHT-TO-USE ASSET

An operator should initially measure the right-to-use asset as the sum of the following when the asset is placed into service:

- Amount of the initial measurement of the liability for installment payments;
- PPP payments made to the transferor at commencement of the term;
- Cost of the purchased or constructed asset, if the PPP meets the definition of an SCA
- Cost of improvements to the existing PPP asset
- Initial direct costs that are ancillary charges necessary to place the asset into service



OPERATOR RIGHT-TO-USE ASSET - AMORTIZATION

- A right-to-use asset should be amortized in a systematic and rational manner over the shorter of the PPP term or the useful life of the underlying asset.
- The amortization of the right-to-use asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.



DEFERRED OUTFLOW OF RESOURCES

- The operator subsequently should recognize the deferred outflow of resources as outflows of resources (for example, expense) in a systematic and rational manner over the PPP term.



NOTE DISCLOSURES - OPERATOR

- A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which variable payments not included in the measurement of the liability for installment payments are determined.
- The nature and amounts of assets and deferred outflows of resources.
- The discount rate or rates applied to the measurement of the liability for installment payments.
- Principal and interest requirements to maturity.
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the liability for installment payments.
- The nature and extent of rights granted to the operator or retained by the transferor.



MODIFICATIONS AND TERMINATIONS

- Amendments to PPP arrangements should be considered a modification unless the operator's right to use the underlying PPP assets decreases, in which case the amendment should be considered a partial or full termination.



MODIFICATIONS

A transferor and an operator should account for an amendment during the reporting period resulting in a modification to a PPP arrangement as a separate PPP (that is, separate from the most recent PPP arrangement before the modification) if both of the following conditions are present:

- The PPP modification gives the operator an additional PPP asset by adding one or more underlying PPP assets that were not included in the original PPP arrangement.
- The increase in PPP payments for the additional PPP asset does not appear to be unreasonable based on (1) the terms of the amended PPP arrangement and (2) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).



TERMINATIONS

A transferor and an operator should account for an amendment during the reporting period resulting in a decrease in the operator's right to use the underlying PPP asset (for example, the PPP term is shortened or the underlying PPP assets is reduced) as a partial or full PPP termination.



APA DEFINITION

- An APA is an arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.
- Payments based entirely on asset's availability for use rather than tolls, fees, or similar revenues or other measures of demand.
- In an APA, a government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services.

APA ACCOUNTING AND REPORTING

- Components of an APA that are related to the design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the government by the end of the contract should be reported as a financed purchase.
- Components of an APA that are related to providing services for the operation or maintenance of a nonfinancial asset should be accounted for as outflows of resources (for example, expense) in the period to which payments relate.

Implementing the new GASB's



Recent GASB Standards

- Statement # 99
 - Omnibus 2022
 - Effective for periods beginning after June 15, 2022 except financial guarantees and derivatives June 15, 2023
- Statement # 100
 - Accounting Changes and Error Corrections
 - Effective for periods beginning after June 15, 2023
- Statement #101
 - Compensated Absences
 - Effective for periods beginning after December 15, 2023



GASB Statement No. 99 Omnibus 2022

- Effective for reporting periods beginning after June 15, 2022 Except for
- Financial Guarantee and Derivative items apply after June 15, 2023



**GASB Statement No. 99
Omnibus 2022**

- Exchange or exchange like financial guarantee is defined as a guarantee of an obligation of a legally separate entity or individual that requires the guarantor to indemnify a third party obligation holder under specified conditions.
 - Apply Statement 70 for Nonexchange Financial Guarantees



**GASB Statement No. 99
Omnibus 2022**

- Conflicting recognition criteria between Exchange or exchange like financial guarantee and Nonexchange guarantee
 - Statement 70 Nonexchange recognized when more likely than not
 - Statement 62 for Exchange recognized when probable
- Now use when more likely than not for both types of transactions



**GASB Statement No. 99
Omnibus 2022**

- Derivative instruments within scope Statement 53 but do not meet the definition of an investment derivative or a hedging derivative are considered *Other derivative instruments*.
 - Changes in fair value reported on resource flows statement separately from investment revenue
 - Separate disclosure from hedging and investment derivatives
 - Disclose the fair values of derivative instruments that were reclassified from hedging to other



**GASB Statement No. 99
Omnibus 2022**

- Lease, SBITA and PPP Termination clarification
 - An option to terminate an agreement only in certain circumstances such as violation of agreement or non payment is not considered an option to terminate
 - Only unconditional option to terminate is considered when determining the term of the Lease/SBITA/PPP



**GASB Statement No. 100
Accounting Changes and Error
Corrections**

- Effective for reporting periods beginning after June 15, 2023



**Accounting Changes and
Error Corrections**

- 3 types of Accounting Changes
 - Change in Accounting Principle
 - Change in Accounting Estimate
 - Change to or within the Financial Reporting Entity
- Error correction



Accounting Changes and Error Corrections

- Change in Accounting Principle
 - Change from one GAAP principle to another
 - Implementation of new pronouncement
 - Restate retroactively for all periods presented it practicable
 - If not, report restatement of beginning net position, fund balance or fund net position as applicable



Accounting Changes and Error Corrections

- Change in Accounting Estimate
 - Change in estimate is a result of a change in circumstance, new information, more experience or methodology
 - Report prospectively in the reporting period in which the change occurs.



Accounting Changes and Error Corrections

- Change in Reporting Entity
 - Addition or removal of a fund that results from movement of resources within the primary government including blended CU's.
 - Change in the fund presentation as major or nonmajor
 - Change in presentation of CU.



Accounting Changes and Error Corrections

- Change in Reporting Entity
 - Addition or removal of a CU from reporting entity.
 - Unless acquisition, merger or transfer of operations, as defined by #69, creates the addition or removal pursuant to #90 Majority Equity Interests.



Accounting Changes and Error Corrections

- Change in Reporting Entity
 - Report by adjusting beginning net position, fund balance or fund net position as applicable as if the change occurred as of beginning of the reporting period



Accounting Changes and Error Corrections

- Error Correction
 - Mistake in math, application of accounting principle or misuse of facts that existed at time statements were issued.
 - Change from non GAAP to GAAP.
 - Retroactive restatement for all periods presented.



First Time Adoption of GAAP by GASB Financial Reporting Framework

- Not an Accounting Change
- Not an Error



GASB Statement No. 101 Compensated Absences

- Effective for reporting periods beginning after December 15, 2023



GASB Statement No. 101 Compensated Absences

- Criteria for recognizing liability
 - Attributed to service already rendered
 - Leave accumulates
 - More likely than not to be used by taking time off or being paid in cash
- Vesting is not a criteria



GASB Statement No. 101 Compensated Absences

- Calculation of liability
 - Use current pay rate
 - Add amounts that are directly related to salary payment
 - Retirement
 - Medicare
 - Exclude amounts not directly related
 - Insurances



GASB Statement No. 101 Compensated Absences

- Disclosures
 - No longer required to show increases and decreases
 - If netted you must disclose this fact
 - No longer required to disclose fund from which payment will be made








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PREPARING THE SEFA



OBJECTIVES


- What is a SEFA
- Walk through the SEFA shell
- Completeness
- Where can I find guidance



WHAT IS A SEFA

The SEFA is the Schedule of Expenditures of Federal Award

- Required by CFR 200.510(b): *Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.507. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately



AT A MINIMUM, THE SEFA MUST

- List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.



AT A MINIMUM, THE SEFA MUST

- Provide total Federal awards expended for each individual Federal program and the Federal Award Listing number (ALN) or other identifying number when the ALN information is not available (<https://sam.gov>). For a cluster of programs also provide the total for the cluster.
- Include the total amount provided to subrecipients from each Federal program.




SEFA NOTE DISCLOSURES

- Must describe significant accounting policies used in preparing the schedule (i.e. basis of accounting)
- Must note whether or not the auditee elected to use the 10% de minimis cost rate.
- For loan or loan guarantee programs, must disclose the balances outstanding at the end of the audit period.


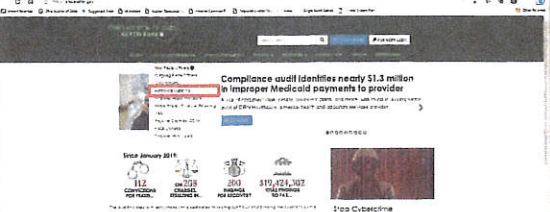


SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS


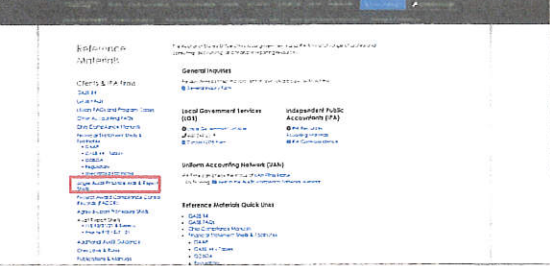
- Must be based on when the activity related to the Federal award occurs.
- Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

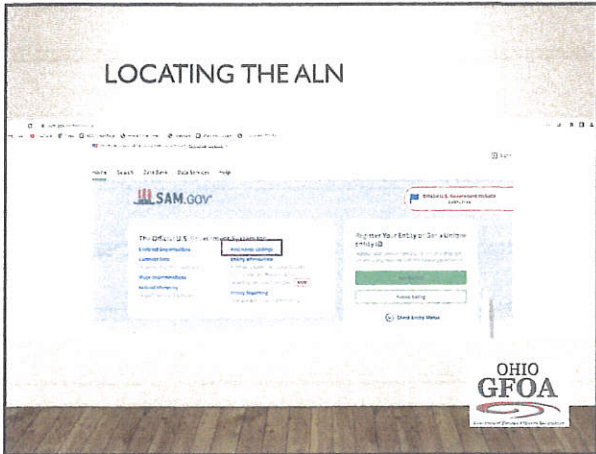


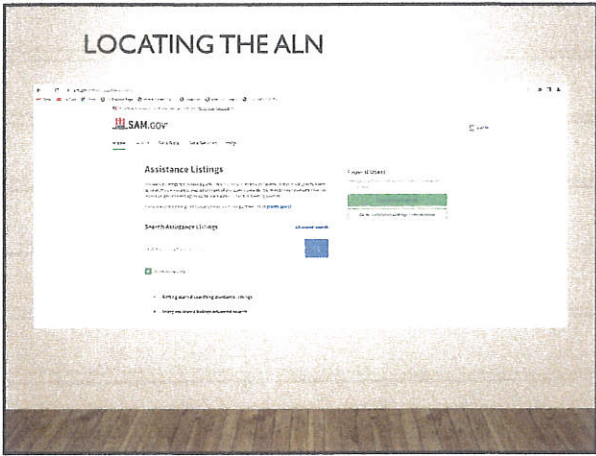
AOS SHELL

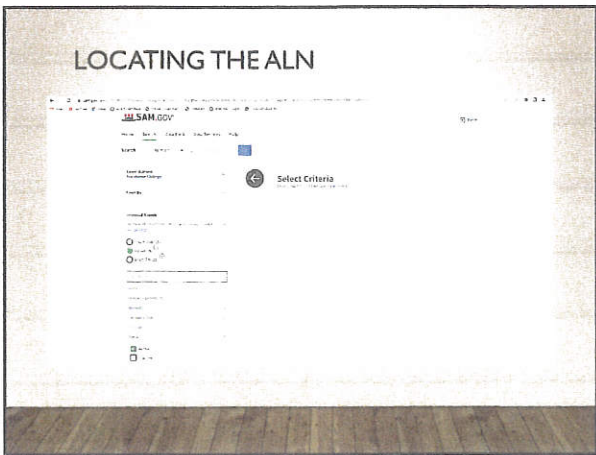


AOS SHELL










SAMPLE COMPLETED SEFA




Sample Completed SEFA




SINGLE AUDITS

Objective of a Single Audit is to provide federal grantor agencies with assurance that recipients of federal financial assistance have complied with all relevant legal, regulatory, grant, and contractual requirements




SEFA PREPARATION TIPS

- Scan detailed receipt and expenditure ledgers to ensure accuracy/completeness of federal programs
- Obtain copies of grant agreements to ensure proper classification (state vs. federal)
- Track each federal program from start to finish
- Investigate significant variances with prior year
- AOS SEFA Completeness Guide and other resources (www.ohioauditor.gov)
- Work with department heads




WHAT WILL YOUR AUDITORS LOOK AT?

- Auditors will document the method the government uses to prepare the SEFA
- Determine the proper basis of accounting for each Federal award
- Trace totals to the underlying accounting records used to prepare the financial statement
- Foot and Crossfoot the schedule




WHAT WILL YOUR AUDITORS LOOK AT?

- Review the schedule to determine all required components were included
- Assess the completeness of the schedule



WHERE CAN I FIND GUIDANCE

- [Single Audit Practice Aids & Audit Report Shells](#)
(ohioauditor.gov)
 - [2022 SEFA Completeness Guidance](#)
 - [Federal Frequently Asked Questions](#)
- [Federal Assistance Listing](#)
- [Uniform Guidance](#)




QUESTIONS?




GASB 54

FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS




FUND BALANCE REPORTING

Fund balance for **government funds** should be reported in classifications that comprise a **hierarchy** based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.



COMPONENTS OF FUND BALANCE

- 5 Categories
 - Nonspendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned
- Not all will always be present



NONSPENDABLE FUND BALANCE

- Not in spendable form
 - Not expected to be converted to cash (e.g. supplies inventories and prepaid items)
 - Cannot currently be spent (e.g. the long term portion of loans receivable and nonfinancial assets held for resale)
- Legally or contractually required to be maintained intact (principal of an endowment or revolving loan fund)

NONSPENDABLE, CONTINUED

- Resources that cannot currently be spent
 - If constraints on the purpose for which the proceeds can be used, classify based on constraint
- Only long-term loans receivable would be classified as nonspendable fund balance
- Other long-term receivables offset by liability for deferred revenue (thus no fund balance)




SPENDING CONSTRAINTS

- Restricted
- Committed
- Assigned




RESTRICTED FUND BALANCE

- Fund balance should be reported as restricted when constraints placed on the use of resources are either:
 - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments (i.e. State Statutes); or
 - Imposed by law through constitutional provisions (City Charter) or enabling legislation




ENABLING LEGISLATION

- Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external service providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stated in the legislation.
- If legislation is passed to generate revenues for a local government under the authority of State statute, it is NOT enabling legislation.



COMMITTED FUND BALANCE

- Committed fund balance amounts are internally imposed by the governing body (highest level of decision making authority).
- Binding unless removed in the same manner (resolution or ordinance).
- Includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements (i.e. contract awarded by resolution or through the bid process authorized by resolution of the governing board).



ASSIGNED FUND BALANCE

- Intended use of resources
 - Established by the governing body itself (but not by formal action such as a resolution or ordinance), or
 - Established by a body or an official delegated by the governing body
- Encumbrances
- Future appropriations exceed estimated receipts



COMMITTED V. ASSIGNED

- Level at which action must be taken
 - Committed requires highest level of decision-making
 - Assigned allows delegation to some other body or official
- Action necessary
 - Formal action to impose, remove, or modify a constraint reflected in committed
 - Less formal for assigned



UNASSIGNED FUND BALANCE


- Excess of total fund balance over nonspendable + restricted+ committed + assigned components
 - Positive balance only possible in the general fund
 - Deficit balance possible in any governmental fund
 - Deplete general fund assigned before reporting deficit unassigned



STABILIZATION ARRANGEMENTS

Stabilization arrangements

- Can be restricted or committed
- Never assigned



STABILIZATION ARRANGEMENTS

- Criteria for the use of resources should be specific, and the resources should not be expected to be spent routinely.
- "In an emergency" or to offset "anticipated revenue shortfall" are not specific enough to meet the criteria for restricted or committed.
- Arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as unassigned.

NOTE DISCLOSURES

- Process for committed fund balance
- Process for assigned fund balance
- Spending policy (restricted vs. unrestricted)
- Stabilization arrangement specifics


SPECIAL REVENUE FUNDS

- Must have foundational revenue stream that is either restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Assigned revenues, transfers in, or other financing sources cannot be the foundation for establishing a SRF
- All fund inflows, once recorded in a fund, are to be used for the same purpose as the specific revenue source serving as the foundation of that fund. Thus, once the foundational revenue of a SRF has been identified and classified, other inflows into the same fund should follow suit.

DEBT SERVICE AND CAPITAL PROJECTS FUNDS


- Do not need a foundation revenue
- Can have transfers as their sole inflow
- If governing body has identified a specific purpose by ordinance or resolution, the fund balance is committed.
- If governing body has not identified a purpose, the fund balance is assigned.

INTERNAL CONTROLS AND EXTERNAL AUDITS



INTERNAL CONTROL TOPICS


1. Scope of Internal Control
2. Elements of a Comprehensive Framework of Internal Control
3. Responsibility for Internal Control
4. Inherent Limitations of Internal Control



TOPIC I: THE SCOPE OF INTERNAL CONTROL

The scope of internal control must be broad in order to help management carry out its duties:

- Operations (efficiency and effectiveness)
- Compliance
- Financial Reporting



TOPIC 2: COMPONENTS OF A COMPREHENSIVE FRAMEWORK OF INTERNAL CONTROL:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring



CONTROL ENVIRONMENT

- Management is knowledgeable about internal control, committed to making internal control work, and communicates its commitment to staff at all levels
- "Tone at the Top"
- The foundation for all other elements of internal control




RISK ASSESSMENT

- Risk assessment refers to an ongoing attempt by management to identify potential risks that might prevent management from carrying out its duties




RISK ASSESSMENT

- Changes in the operating environment
- Changes in personnel
- Changes in Information systems
- Rapid growth
- New programs and services




RISK ASSESSMENT

- Need to focus on inherently risky areas
 - Complexity
 - Cash receipts
 - History of prior problems
 - History of prior unresponsiveness to identified control deficiencies



CONTROL ACTIVITIES

- The design, maintenance, and implementation of specific control procedures is essential to ensuring the integrity and reliability of the data processed by the accounting system and included in financial reports.



CONTROL ACTIVITIES

- Procedures to ensure that transactions are properly authorized
- Properly designed records
- Control to secure assets and accounting records
- Segregation of incompatible duties
- Periodic reconciliations
- Periodic verifications
- Analytical review of accounting data for reasonableness



INFORMATION AND COMMUNICATION

Effective Communication of Information:

- Clear lines of communication are essential in order for internal control to function
- Communication should flow in all directions
- Includes communication with external parties
- Can take various forms – written procedures, meetings, memos, informal updates



INFORMATION AND COMMUNICATION


Formal Documentation of Finance Related Policies and Procedures Enhances Accountability and Consistency



INFORMATION AND COMMUNICATION


Documentation of how transactions and events are processed should include:

- Who
- What
- How often
- How evidenced




MONITORING

- To ensure that control-related policies and procedures have been properly designed, fully implemented, and remain operational
- To ensure that management has responded appropriately when control-related policies and procedures have indicated a potential problem



TOPIC 3: RESPONSIBILITY FOR INTERNAL CONTROL

Internal control is essentially management oriented.
Management is primarily responsible for the proper functioning of internal control.



RESPONSIBILITY FOR INTERNAL CONTROL (CONTINUED)

The Governing Board is ultimately responsible for ensuring that management fulfills its duty in regard to internal control.



RESPONSIBILITY FOR INTERNAL CONTROL (CONTINUED)

The Independent Auditor's assessment of internal control is NOT a substitute for management's own ongoing monitoring and evaluation of the effectiveness of its control related policies and procedures.



TOPIC 4: INHERENT LIMITATIONS OF INTERNAL CONTROL


- Cost vs. Benefit
- Management Override
- Risk of Collusion



QUESTION 1

Which is the foundation of the five components of a comprehensive framework of internal control?


- A. Control Environment
- B. Risk Assessment
- C. Control Activities
- D. Information and Communication
- E. Monitoring



QUESTION 2

Who is *ultimately* responsible for internal control?


- A. Management
- B. Governing Board
- C. Internal Auditor
- D. Independent Auditor



QUESTION 3


Which of the following is an inherent limitation of internal control?

- A. Cost/benefit considerations
- B. Management involvement
- C. Collusion
- D. All of the above
- E. Both A and C




EXTERNAL AUDITS

1. Financial Audits
2. Single Audits




TOPIC I: FINANCIAL AUDITS

Objective of a Financial Audit is to Provide Users of Financial Reports with Reasonable Assurance from an Independent Source that Reports are Reliable



FINANCIAL AUDITS


- Auditing Standards
- Certain Key Financial Audit Concepts
- Audit Reports



FINANCIAL AUDITS

Auditing Standards –


Financial Audits of Governmental Entities are Performed in Accordance With Generally Accepted Auditing Standards (GAAS) issued by the AICPA AND Generally Accepted Government Auditing Standards (GAGAS) issued by the US Government Accountability Office (GAO).



FINANCIAL AUDITS


Key Financial Audit Concepts:

- Reasonable Assurance
- Materiality
- Audit Risk
- Material Weakness/Significant Deficiency



FINANCIAL AUDITS

- Reasonable Assurance – Auditors do NOT attempt to ensure 100% accuracy of financial reports
- Rather, auditor seeks to affirm that Financial Statements are Free of *Material* Misstatement
- Auditor Considers Both Quantitative and Qualitative Materiality
- Numerous “opinion units”



FINANCIAL AUDITS

Audit Risk

Must evaluate the following to achieve LOW audit risk:

- Inherent Risk
- Control Risk
- Detection Risk



FINANCIAL AUDITS

Audit Findings

- Control Deficiencies
- Significant Deficiencies
- Material Weakness




FINANCIAL AUDITS

Auditor's Report on the Financial Statements – Provides the Auditor's Opinion on Whether the Financial Statements are Fairly Presented




FINANCIAL AUDITS

- "Unmodified" Opinion - Financial Statements are Fairly Presented in all Material Respects
- "Modified" Opinion - Auditor has some reservation Regarding the Fair Presentation of the Financial Statements
- "Disclaimer" of an Opinion on All or Certain Parts of the Financial Statements
- "Adverse" Opinion is Issued when the Auditor states that the Financial Statements Are NOT Fairly Presented




FINANCIAL AUDITS

Auditor's Report on Compliance and Internal Control Over Financial Reporting



FINANCIAL AUDITS

- the report lists significant or material instances of non-compliance discovered during the financial audit
- the report lists control deficiencies, distinguishing between significant deficiencies and material weaknesses



TOPIC 2: SINGLE AUDITS

Objective of a Single Audit is to provide federal grantor agencies with assurance that recipients of federal financial assistance have complied with all relevant legal, regulatory, grant, and contractual requirements



SINGLE AUDITS

- Auditing Standards
- Certain Key Single Audit Concepts
- Audit Reports




SINGLE AUDITS

Single Audit Act – Applies to All Governmental Entities that Expend More than \$750,000 per fiscal year in Federal Awards




SINGLE AUDITS

A Single Audit must be Conducted In Accordance with GAAS, GAGAS and Uniform Guidance.



SINGLE AUDITS


Auditor Must Determine if the Mandated Supplementary Schedule of Expenditures of Federal Awards is Fairly Presented in Relation to the Financial Statements



SINGLE AUDITS

Because the Auditor Cannot Devote the Same Level of Attention to All Federal Programs, the Auditor uses a Risk Assessment Process to Identify Programs for Testing

- Low Risk = 20%
- Not Low Risk = 40%



SINGLE AUDITS

For Each Major Program, the Auditor Must Gain an Understanding of Internal Controls Over Compliance and Test Such Controls



SINGLE AUDITS

In addition, the Auditor Must Render An Opinion on Whether the Entity Complied with Laws and Regulations That Could have a Direct and Material Effect on Each Major Federal Program



SINGLE AUDITS

Audit Reports -


- Auditor's Report on the Federal Schedule
- Auditor's Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Program Award



QUESTION 1

The purpose of a financial statement audit is to provide users of financial reports with absolute assurance from an independent source that reports are reliable


- A. True
- B. False



QUESTION 2

The basic criterion used in determining whether a Single Audit is required is:


- A. Amount of federal awards received
- B. Amount of federal awards received or committed
- C. Amount of federal awards expended
- D. Greater of A or C



QUESTION 3

On which of the following does the auditor express an *opinion*?

- A. Compliance for federal awards
- B. Internal control over compliance for federal awards
- C. Both A and B
- D. None of the above



CURRENT GASB PROJECTS & UPDATE ON FINANCIAL REPORTING MODEL IMPROVEMENTS





22

GASB PROJECTS PROCESS

- Pre-Agenda Research
- Add to Agenda
- Deliberations
- Invitation to Comment
- Preliminary Views
 - Comment period & redeliberate
- Exposure Draft
 - Comment period & redeliberate
- Final Pronouncement



OTHER CURRENT GASB PROJECTS

- Conceptual Framework: Recognition
 - Exposure Draft being redeliberated
- Financial Reporting Model
 - Exposure Draft being redeliberated
- Revenue & Expense Recognition
 - Preliminary Views redeliberation
- Going Concern Uncertainties and Severe Financial Distress
 - Added to Agenda



PRACTICE ISSUES

- Classification of Nonfinancial Assets
 - Added to Agenda
- Implementation Guidance – 2022 Update
 - Added to Agenda
- Risks and Uncertainties disclosures
 - Exposure Draft comment period




PRE-AGENDA RESEARCH

- Capital Assets
- Subsequent Events




**FINANCIAL REPORTING MODEL
TIMELINE**

- Research started in 2013
- Preliminary Views comment period September 2018 – February 2019 w/ opposing views
- Exposure Draft Comment period July – Feb 2021
- Public hearings March & April 2021
- Current redeliberation thru August 2023
- Draft of new statement March 2024




**FINANCIAL REPORTING MODEL
SCOPE**

- Management Discussion & Analysis
 - Explore options to enhance
 - Consider elimination of some boilerplate items
 - Clarify guidance around currently known facts that effect finances



**FINANCIAL REPORTING MODEL
SCOPE**

- Major Funds
 - Explore options to provide more data on debt service funds
- Government Wide Financial Statements
 - Explore alternative format for statement of activities
 - Require cash flows statement?
 - Schedule of Govt. Activities by natural classification?



FINANCIAL REPORTING MODEL
SCOPE

- Government Fund Financial Statements
 - Explore conceptually consistent measurement focus and basis of accounting
 - Consider format of statements
- Proprietary Fund Statements
 - Explore definition of operating



FINANCIAL REPORTING MODEL
SCOPE

- Budgetary Comparisons
 - Basic financial statements or RSI?
 - Which variances should be reported?



FINANCIAL REPORTING MODEL
PRELIMINARY VIEWS

- 1,800 Webex Participants wanting more info
- 150 responses
- 3 public hearings
- 2 user forums



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- MD&A
 - Desire more thoroughness in analysis of year to year changes
 - Present so as to avoid unnecessary duplication
 - Remove requirement for disclosure of infrastructure assets using modified basis



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- MD&A
 - Budgetary variance discussion to be presented in RSA not in MD&A
 - Should include charts, graphs and tables when appropriate
 - New illustration for new financial statements



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- MD&A
 - Currently known facts, decisions...with significant effect on finances to include:
 - Trends in economic data
 - Population growth
 - Customer base
 - Unemployment rate
 - Action regarding postemployment benefits, capital improvement plans, and long term debt



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- MD&A
 - Currently known facts, decisions....with significant effect on finances to include:
 - Details of subsequent year's approved budget
 - Changes to amount available for appropriation
 - Changes in planned spending
 - Expected changes in fund balance
 - Information regarding actions by other parties that effect the government(legislation, litigation)



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- MD&A
 - Allow for professional judgement to determine what is unnecessarily duplicative
 - Eliminate requirement to reference summary of significant accounting policies note
 - Change Introduction section to Overview of the Financial Statements
 - Change "Significant Capital Asset and Long-Term Debt Activity" to Significant Capital Asset and Long-Term Financing Activity



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- MD&A
 - Remove requirement to provide analysis of nonmajor funds in the aggregate and require only analysis of balances and transactions of each major fund
 - Include an analysis of all significant long term financing activity



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Major Funds
 - Current reporting of Debt is sufficient
 - Cash Flow Statement is from alternative views standpoint and not part of preliminary views



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Government wide financial statements
 - Schedule of Governmental Activities Expenses by Function and Natural Classification – Eliminated due to Cost vs Benefit
 - Cash Flow Statement is from alternative views standpoint and not part of preliminary views
 - Special Revenue funds changed to Special Resources funds



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Government Fund Financial Statements
 - Current financial resources , total financial resources and economic resources should not be used in governmental funds
 - Short Term financial resources to be used with decisions to be made regarding which views to include
 - Eliminates nonspendable fund balance
 - Remain part of basic financials



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Short Term Financial Resources Measurement Focus
 - Short term transactions recognized when they occur
 - Long Term transactions recognized when they are due
 - Does not treat assets the same as liabilities and needs greater clarity



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Short Term Financial Resources Measurement Focus (Alternative)
 - Short term transactions recognized when cash is expected to be received within one year from financial statements
 - Long Term transactions recognized when cash is expected to be paid within one year from financial statements
 - Replace concept of "normally"



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Short Term Financial Resources Measurement Focus (Alternative)
 - Financial assets would include principal of receivables including notes to the extent due in the next year



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Short Term Financial Resources Measurement Focus (Alternative)
 - Financial liabilities would include the following to the extent due in the next year
 - Principal of GO and Long Term debt
 - Compensated absences
 - Claims and judgements
 - Tax and revenue anticipation notes



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Short Term Financial Resources Measurement Focus (Alternative)
 - Normally replaced with:
 - Stated or contractual maturities of financial assets and liabilities
 - Best estimate of periods of receipt or payment if there are no stated or contractual maturities
 - Less ambiguity and more consistency
 - Example paying off long term debt early



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Proprietary fund statements
 - Operating
 - Activities other than nonoperating
 - Nonoperating
 - Subsidies received and provided
 - Financing activities
 - Investment activities
 - Disposal of assets
 - New subtotal for operating income (loss) and noncapital subsidies



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Proprietary fund statements
 - Reviewing definition of subsidies
 - Noncapital unless limited to capital purposes
 - Analyze if specific transactions qualify
 - Payment in lieu of taxes
 - Internal scholarship allowances
 - Intergovernmental revenues
 - Contributions and grants
 - Endowment gifts
 - Third party payments



FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Proprietary fund statements
 - Accept proposed format of new statements
 - Update statistical section for governments only engaged in business type activities to include
 - Operating
 - Noncapital subsidy
 - Other nonoperating revenues and expenses




FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS

- Permanent & Term Endowment Funds
 - Contributions are to be classified as nonoperating revenues



**FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS**

- Present individually as the last presented flow(s) prior to net change
- Include both inflows and outflows separately displayed on financial statements
- Note disclosure to include whether management has control over these items



**FINANCIAL REPORTING MODEL
TENTATIVE DECISIONS**

- Budgetary Comparisons**
 - Will be RSI
 - Required variances
 - Final budget to actual
 - Original budget to final budget
 - Discussion of changes as notes to budgetary comparisons

