



# Dave Yost • Auditor of State

## OHIO COMPLIANCE SUPPLEMENT

### Preface

This is the latest edition of the Ohio Compliance Supplement, superseding the February 2014 version. This edition incorporates significant new or revised legal and regulatory requirements as well as comments we have received from auditors and our clients. The following page, titled OCS Instructions, explains how you can identify updates.

In accordance with *Government Auditing Standards*, financial statement audits include reporting on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements (2011 *Government Auditing Standards*, 4.23).

Management of the audited entity is responsible for . . . complying with applicable laws and regulations (including identifying the requirements with which the entity and the official are responsible for compliance). (2011 *Government Auditing Standards* Appendix I, A1.08(b)).

Ohio law requires audits of each public office. These audits help determine whether the government's financial statements are fairly presented and whether management has complied with significant laws and regulations.

The Ohio Compliance Supplement contains certain laws and regulations which are of considerable public interest, or are of the type auditors generally consider direct and material. Though the Ohio Compliance Supplement is not a comprehensive listing of applicable laws and regulations, it is designed to help auditors and public offices identify and familiarize themselves with certain laws and regulations which generally apply to a variety of local governments and colleges and universities.

In order to reduce costs, the Ohio Compliance Supplement is available only in electronic format via the Auditor of State's website at [www.ohioauditor.gov](http://www.ohioauditor.gov). However, if you are unable to access the website or have difficulty accessing these files, please contact the Center for Audit Excellence at 1-800-282-0370.

As in the past, we plan to regularly update the Ohio Compliance Supplement. Comments we receive from our staff and others are an important source of revisions and improvements. We appreciate your input as we continue to improve the Ohio Compliance Supplement.

**Dave Yost**  
Auditor of State

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## OCS Instructions

This **February 2015 Ohio Compliance Supplement** (OCS) replaces the February 2014 version. The OCS is available at [www.ohioauditor.gov](http://www.ohioauditor.gov), under *Publications*, in both Word and Portable Document Format (PDF). (Auditor of State staff can also use the 2015 OCS procedures built into TeamMate.) Due to the wide availability of internet access, we no longer provide the OCS in paper or disc formats.

The OCS (Chapters 1-3) and the OCS Optional Procedures Manual are available in MS Word format so auditors can document work or cross reference to other audit documentation in those documents. The OCS Implementation Guide is only available in PDF, since we do not expect that auditors would document their work in this section.

The OCS Implementation Guide contains important information regarding compliance testing and should be used in conjunction with the three OCS Chapters.

The Auditor of State intends to select a few audits randomly each year, to test requirements listed in the OCS Optional Procedures Manual.

The OCS consists of three chapters and the Table of Contents is located in the front of each chapter. The Table of Contents identifies legislative requirements. The table identifies superseded legal requirements or sections that were moved to another chapter using strikeout font. The table also identifies new or revised requirements via shading. For example, Step 1-5 was revised and it appears in the table of contents as follows:

1-5	Ohio Rev. Code §5705.05-.06, 5705.10, 5705.14(E), 5731.48 and 3315.20(A): Distributing revenue derived from tax levies, proceeds from sale of bond issue or permanent improvement, and depositing estate taxes into the general fund.....	17
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We have included a box at the top left hand corner within each modified step indicating if the section is a revised or new legislative requirement. The effective date also appears to enable you to easily determine if the revision applies to the audit period. Below is an example appearing in the OCS:

<p><b><u>Revised: HB 483, 130<sup>th</sup> GA</u></b> <b><u>Effective: 9/15/14</u></b></p>
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In addition to the box described above, the OCS uses double underlining to indicate new or revised legislative or accounting standard requirements.

The OCS uses waved underlining to highlight:

- Pre-existing laws we have now determined auditors should test (i.e. requirements not appearing in former OCS editions).
- New or amended guidance. Most of these changes represent information we believe will enhance understanding compliance auditing or reporting.

The OCS uses ~~strike-out~~ font to indicate replaced or omitted legislative requirements. We have not deleted these sections since they may still apply to part of an audit period. Also, retaining this information will help users better understand the changes.

**Auditors with engagements in process prior to the issuance of the 2015 Supplement need not discard work performed using the 2014 OCS. However, they must compare the 2015 changes to their work from the 2014 OCS and assure they have tested the legal provisions applicable to their audit period. More than one legal requirement could apply if a legislative change was effective during the audit period.**

## CHAPTER 1 DIRECT LAWS

AU-C 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* clarifies the auditor's responsibility regarding OCS tests:

“.02 . . . The provisions of some laws or regulations have a **direct** effect on the financial statements in that they **determine the reported amounts and [required] disclosures** in an entity's financial statements. . .”

Conversely:

“.A13 Many laws and regulations relating principally to the operating aspects of the entity do not *directly* affect the financial statements (their financial statement effect is **indirect**) and are *not captured by the entity's information systems relevant to financial reporting*. Their **indirect effect** may result from the need to disclose a contingent liability because of the allegation or determination of identified or suspected noncompliance.”

- Based on the above (and AU-C 250.A9 – .A11), “**direct** and material compliance” refers **only** to laws a government’s information system (which includes its accounting system) must “capture” to **determine financial statement amounts and required disclosures**<sup>1</sup>. Therefore, we have classified a law as **direct** in this OCS if noncompliance has the potential to materially misstate the financial statements. Chapter 1 of this compliance supplement includes “direct” laws.
  - As one example, GAAP requires governments to present budgetary comparisons as basic statements or as RSI.
  - GAAP also requires these presentations to follow the government’s legal budget basis.
    - In Ohio, a “5705 government’s” information system must capture information using the accounting basis Ohio Rev. Code Chapter 5705 (via GASB Cod. 2400) prescribes to compile budget and actual amounts and budget variances GAAP requires.
    - Ohio Rev. Code Chapter 5705 generally prescribes a cash + encumbrance accounting basis, which a compiler must understand and follow to satisfy GAAP.

In addition to the discussion above from AU-C 250, the AICPA Audit and Accounting Guide *State and Local Governments*, sections 4.0940 through 4.22, discusses legal requirements which might directly and materially affect determining financial statement amounts for a governmental entity. Material noncompliance (having a direct or indirect effect) would often:

- Require adjusting amounts or revising disclosures.
  - Auditors should do the same regarding noncompliance **indirectly** affecting financial statement amounts or disclosures, if they become aware of it.
    - For example, AU-C 250.06 b.iii describes material penalties as an **indirect effect**, though they may require disclosure or even accrual as a contingent expense

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<sup>1</sup> Few Ohio GAAP governments’ have “formal” systems to compile most balance sheet assets or liabilities. Therefore, GAAP governments’ “information systems” include trial balances, other spreadsheets or any other material used to compile GAAP amounts or disclosures.

Cash / AOS basis governments’ *information systems* include documents used to prepare / support notes to the statements.

- Require reporting as a material GAGAS noncompliance finding.
- May represent significant / material violations of “finance-related legal ~~and~~ contractual provisions”
  - SLG 4.1314 and GASB Cod. 2300.106(h) require “notes to the financial statements should disclose material violations of finance-related legal and contractual provisions ~~financial statement note disclosure of~~” and “actions taken to address significant such violations”.
  - See table regarding 4.1314 below in ~~the~~ this implementation guide.

SLG 4.1213 lists examples of laws that may directly and materially affect the determination of financial statement amounts and disclosures. When preparing this edition of the OCS we considered the examples in 4.1213. Each law in OCS Chapter 1 has potential for a direct effect. Laws with indirect classification per AU-C 250.06 b are included in Chapter 2.

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**BUDGETARY REQUIREMENTS  
ALL ENTITY TYPES**

**1-1 Compliance Requirement:** Ohio Rev. Code §5705.38 Annual appropriation measure.

**Summary of Requirements:**

Ohio Rev. Code §5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1. This does not apply to school district appropriations.

Ohio Rev. Code §5705.38(B) provides that a board of education shall pass its annual appropriation measure by the first day of October. If a school district's annual appropriation measure is delayed as permitted by law (see below), the board may pass a temporary measure for meeting the ordinary expense of the school district until it passes an annual appropriation measure.

The taxing authority of a taxing unit that does not levy a tax must still appropriate at the minimum level of control prescribed by Ohio Rev. Code §5705.38(C) (or a lower level). No budget commission approval is required by 5705.28(B)(2)<sup>2</sup>.

As discussed in Auditor of State Bulletin 98-012 there are two circumstances when school district certificates/certifications would be issued after October 1:

- A certificate/certification would be issued after October 1 when a school district has borrowed against its spending reserve. This certificate/certification would not be issued until second half personal property taxes are settled.
- A certificate/certification would be issued after October 1 when the delivery of a tax duplicate is delayed under Ohio Rev. Code §323.17 because a subdivision in the county has placed a levy on the November ballot which, if approved, will go on the current tax list and duplicate.

If a school district is in either of these two situations, passage of the annual appropriation measure should be delayed until the necessary certificates/certifications are received.

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<sup>2</sup> For conservancy districts, auditors should additionally review the requirements of Ohio Rev. Code §6101.44 and tailor their compliance testing procedures accordingly, if necessary. For conservancy districts that levy taxes, we should cite to the budgetary requirements contained in Ohio Rev. Code § 6101.44 where they are similar to requirements contained in Ohio Rev. Code Chapter 5705. The more specific requirements contained in Ohio Rev. Code Chapter 6101 trump those contained in Chapter 5705. Auditors should apply the provisions of Ohio Rev. Code Chapter 5705 when Chapter 6101 does not address budgetary restrictions applicable to conservancy districts.

**Legal Level of Control: Minimum Requirements<sup>3</sup>**

1. Ohio Admin. Code § 117-2-02(C)(1) states in part: “The legal level of control is the level (e.g. fund, program or function, department, object) at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Ohio Rev. Code Chapter 5705, except school districts and public libraries, the minimum legal level of control is described in Ohio Rev. Code § 5705.38 (see 2 below). For school districts, the minimum legal level of control is prescribed in Section 117-6-02 of the Administrative Code (See 3 below). For public libraries, the minimum legal level of control is prescribed in Section 117-8-02 of the Administrative Code (See 4 below). The legal level of control is a discretionary decision to be made by the legislative authority, *unless otherwise prescribed by statute.*”
2. Ohio Rev. Code § 5705.38(C) requires the following minimum level of budgetary control for “subdivisions” other than schools: “Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.”<sup>4</sup>
3. Ohio Admin. Code § 117-6-02 prescribes the following for school districts’ legal level of control: At a minimum, appropriation measures shall be classified to set forth separately the amounts appropriated by fund. The appropriation measure as passed by the school board shall be the legal level of control. This is the level at which compliance with statutory budgetary requirements will be determined. **The AOS recommends that boards of education pass appropriations at a more detailed level. This is, however, a discretionary decision for the board of education based on the degree of control the board of education wishes to maintain over the financial activity of the school district.**
4. Ohio Admin. Code § 117-8-02 requires the library's legislative body shall adopt appropriation measures. These measures establish the legal level of control.

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<sup>3</sup> **We should not recommend that governments adopt the highest level of control the statutes allows.** Appropriating at lower levels than the minimums the ORC or OAC require provides the legislative authority with more control over disbursements. However, appropriating at *very* low levels can significantly increase the volume of appropriation amendments requiring legislative approval as well as possibly requiring additional disbursement codes (more function, object codes, etc.). Conversely, appropriating at higher levels may simplify appropriation measures, but in doing so, the legislative authority effectively delegates more spending decisions to the fiscal officer. The legislative authority should choose the level of control it believes meets its needs to control expenditures. Also, the legislative authority may choose differing levels of control for different funds, *as long as they meet at least the minimum statutory requirements.*

<sup>4</sup> Staff should exercise judgment in determining whether to cite these governments. The following provides some guidance in determining this:

- Because OAC 117-6-02 permits school districts to use the fund as their level of budgetary control, we presume noncompliance will not be an issue for school districts.

Because other facts and circumstances may arise regarding this matter, or if you are unsure whether citing a taxing district for this matter is fair, please consult with your regional chief auditor. If the regional chief is unsure, they can present the facts and circumstances to their Center for Audit Excellence Support representative.

5. Ohio Admin. Code § 117-2-02(C)(1) also states in part: all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted appropriation balances.

**Amounts / Funds Not Subject to Budgeting:**

- The nonexpendable principal of nonexpendable trust funds.<sup>5</sup> Appropriating nonexpendable principal would authorize the fiscal officer to spend the principal in violation of the trust agreement. [5705.36(A)]
- Budget stabilization reserves [§ 5705.13, 5705.29(G)]
- The balance in a township reserve balance account established under section 5705.132 of the Ohio Rev. Code.
- For some time, AOS policy has been that agency funds do not require budgeting. Agency funds account for money a government holds in an agency capacity on behalf of another person or entity. Therefore, a government has minimal discretion in spending this money. Accordingly, the legislative body need not authorize a purpose for spending the money.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Accounting system capable of recording appropriations and comparing them to actual results</li> <li>• Reconciling appropriation totals to totals recorded in the accounting system.</li> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

<sup>5</sup> The ORC still refers to *nonexpendable trust funds*. GASB 54 amended GASB 34 and now requires classifying amounts legally or contractually required to be maintained (e.g., the principal of a Permanent Fund) as Non-expendable Fund Balances (and Restricted Net Assets in entity-wide statements). See AOS Bulletin 2011-004. Private-Purpose Trust Funds, on the other hand, are not subject to GASB 54 fund balance classifications. GASB 34 and 54 do not affect this ORC requirement. That is, these ORC requirements still apply to private purpose trust and permanent funds.



**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Read the minutes and determine if the governing board adopted an annual appropriation measure by the required date.

If a school district has delayed adoption of an annual appropriation measure, inquire about the reasons for the delay.

Scan appropriation measures to determine whether they meet at least the minimum legal level of control 5705.38(C) prescribes.

Determine if the accounting system “integrates” budgetary data at the legal level of control. This means the accounting system should report appropriations, encumbrances, unencumbered cash balances, and estimated receipts, and should compare budgetary data to actual results. If the client uses a manual system (i.e. spreadsheets) determine if the manual system used by the client adequately tracks and compares budgetary data.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-2 Compliance Requirements:** Ohio Rev. Code Sections 5705.41 (D); and 5705.42 Restrictions on appropriating and expending money.

**Summary of Requirements:**

The authorization of a bond issue is *deemed an appropriation* of the proceeds of the bond issue for the purpose for which such bonds were issued. No expenditure shall be made from any bond fund until first authorized by the taxing authority. [Ohio Rev. Code §5705.41(A)].

Similarly, Federal and State grants or loans are “*deemed appropriated*”<sup>6</sup> for such purpose by the taxing authority” as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection [Ohio Rev. Code §5705.42].

No orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury **or in the process of collection**<sup>7</sup> to the credit of an appropriate fund free from any previous encumbrances. [Ohio Rev. Code §5705.41(D)].<sup>8 9</sup>

If an entity levies taxes, Ohio Rev. Code §5705.41 applies. However, some entities with taxing authority do not levy taxes. When they do not levy taxes, Ohio Rev. Code §5705.28 (B)(2) permits a comparable, but somewhat streamlined budget process. Ohio Rev. Code §5705.28(B)(2) requires entities to follow §5705.41.<sup>10</sup>

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<sup>6</sup> “Deemed an appropriation” under this section means the Federal or State government has already appropriated and established the purpose(s) for which a government can spend monies received from Federal or State grants and loans. The taxing authority cannot deviate from this purpose; the taxing authority can only resolve to spend the money for a purpose already prescribed in a contract, grant agreement, loan agreement, etc. Therefore, Federal and State grants and loans received under Ohio Rev. Code §5705.42 *do not* require formal appropriation by the legislative body. In other words, Ohio Rev. Code §5705.42 effectively eliminates an unnecessary appropriation action by the taxing authority. However, Ohio Rev. Code §5705.42 directs the fiscal officer to *record* the appropriation amount in the accounting system. The fiscal officer should also include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity. Note: Amounts “deemed appropriated” are subject to inclusion in GAAP budgetary presentations (GASB Cod. 2400.102). The government has no legal authority to spend these resources unless they were either appropriated by the legislative authority or deemed appropriated by the Federal or State government. (2013-14 GASB Comprehensive Implementation Guide Q&A 7.91.14.).

<sup>7</sup> It is permissible to certify a purchase without sufficient cash “in the bank” if a government is reasonably certain cash will be on hand in time to pay the invoice when due (i.e. is “**in the process of collection**”). For example, the Ohio EMA disburses Homeland Security grants only when the local government certifies to OEMA they have an invoice on hand requiring payment. Since the government will receive OEMA’s cash in time to pay the vendor, the CFO can certify the acquisition even if there is no cash in the fund at the time of the certification. (This assumes there is sufficient appropriation for the payment).

<sup>8</sup> Under Ohio Rev. Code §9.10, 9.11 and 1990 Op. Atty. Gen. No.. 90-082, the fiscal officer need not manually sign each certification. Electronic or mechanical signatures are permissible. However, Ohio Rev. Code §9.10 expressly prohibits using rubber stamp signatures. (We likely would not deem using a rubber stamp to be material noncompliance.)

<sup>9</sup> Ohio Rev. Code §3315.20 permits schools to incur a fund cash deficit in certain circumstances.

<sup>10</sup> For conservancy districts, auditors should additionally review the requirements of Ohio Rev. Code §6101.44 and tailor their compliance testing procedures accordingly, if necessary. For conservancy districts that levy taxes, we

Per 5705.41(D)(3), “Contract” as used in this section excludes current payrolls of regular employees and officers.

**Note:** See Appendix A-2 of the OCS Implementation Guide for examples of direct charges that do not require a certificate under 5705.41(D).

The statute provides the following exceptions to this basic requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract<sup>11</sup> or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority. [Ohio Rev. Code §5705.41(D)].

Fiscal officers may prepare "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance<sup>12</sup> adopted by the members of the legislative authority against any specific line item account over a period not extending<sup>13</sup> beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item<sup>14</sup> appropriation.

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should cite to the budgetary requirements contained in Ohio Rev. Code § 6101.44 where they are similar to requirements contained in Ohio Rev. Code Chapter 5705. The more specific requirements contained in Ohio Rev. Code Chapter 6101 trump those contained in Chapter 5705. Auditors should apply the provisions of Ohio Rev. Code Chapter 5705 when Chapter 6101 does not address budgetary restrictions applicable to conservancy districts.

<sup>11</sup> 1987 Op. Atty. Gen. No. 87-069 concluded that when a government uses *Then and Now* certificates, they should charge the cost to the appropriation in effect at the time they incurred the obligation. For example, if a calendar-year government orders an item in December 2012, the government should charge the cost to 2012 appropriations, even if the fiscal officer signs a *Then and Now* Certificate in January 2013.

<sup>12</sup> The governing authority is only required to adopt one ordinance or resolution establishing the dollar limits for blanket certificates. A separate ordinance or resolution approving *each* individual blanket certificate is not necessary.

<sup>13</sup> We interpret the word “*extends*” in this context as the authority to certify commitments against a regular blanket certificate or super blanket certificate that expires at year end. However, the authority to pay against previously certified commitments continues until all outstanding commitments are paid. (In other words, the government should consider these unpaid year-end commitments similar to other outstanding commitments/encumbrances, and reduce next year’s opening unencumbered balances for these amounts.)

<sup>14</sup> There is no additional legal explanation for what “*line item appropriation*” means in this context; therefore, AOS interprets “line item” to mean accounting line item, which is not necessarily the “legal level of control.”

In addition to regular blanket certificates, a subdivision's fiscal officer may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year or, in the case of counties, beyond the quarterly spending plan established by the county commissioners. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year: Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made needs to be certified. (1987 Op. Atty. Gen. 87-069).

Per Unit Contracts: Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year need be certified. (1987 Op. Atty. Gen. 87-069).

Contract or Lease Running Beyond the Termination of the Fiscal Year Made: Pursuant to §5705.44, Ohio Rev. Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year need be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

Payments made from the earnings of a public utility are exempted from the certification (and encumbering) requirements of Ohio Rev. Code section 5705.41(D). [Ohio Rev. Code §5705.44 and 1987 Op. Atty. Gen. No. 87- 069]. However, these payments are still subject to the requirements of Ohio Rev. Code section 5705.41(B).

The Attorney General, in 1987 Op. Atty. Gen. No. 87 069, has clarified the application of the exceptions set forth above. In summary, he has indicated that:

If a government subject to Ohio Rev. Code §5705.41 (D) enters into a continuing contract under which no goods or services will be delivered during the current fiscal year and payment will not be due until delivery, no amount need be certified as available during the current fiscal year. Pursuant to Ohio Rev. Code §5705.44, the amount remaining unpaid at the end of a fiscal year to become due in the next fiscal year must be included in the annual appropriation measure for the next fiscal year as a fixed charge.

If under a continuing contract it cannot be determined whether delivery of goods or services and the obligation to make payment will take place in the current or an ensuing fiscal year, the total amount due under the contract must be certified as available during the current year.

If under a continuing contract delivery of goods or services is to occur in the current fiscal year with the obligation to make payment deferred until an ensuing fiscal year, the amount required to meet the obligation for goods or services delivered during the current fiscal year must be certified as available in that fiscal year.

If a government subject to Ohio Rev. Code §5705.41 (D), enters into a contract that is not a continuing contract, the total amount due under the contract must be certified as available in the fiscal year in which the contract is made, regardless of when delivery of goods or services will be made or when payment will become due.

County Commissioner Authorization: A board of county commissioners, by resolution, may exempt purchases of \$1,000 or less from the prior certification requirement. The resolution must specify the

dollar limit applicable to such purchases and whether it applies to all purchases, is limited to certain classes of purchases, or is limited to specific purchases. The board must notify the county auditor in writing of its intention to adopt such a resolution and the scope of the resolution. The county auditor has 15 days to comment on the resolution before it may be adopted by the board. Where such a resolution has been adopted, any person authorized to make purchases, within 3 business days (or other time limit the commissioners resolve) of making a purchase exempted under the resolution, must file with the county auditor a written or electronic document stating the purpose, amount, appropriation line item and date of the purchase, and the name of the vendor.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Review/Comparison/Recomputations of Purchase Documents</li> <li>• Budgetary/Purchasing Accounting/Monitoring System</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees – Policies and Procedures Manuals</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Search for material unrecorded liabilities and/or encumbrances at year end. Refer to minutes and records immediately following the fiscal year cutoff date.

During the search for material unrecorded liabilities and/or encumbrances at year end, compare the date of the fiscal certificates with invoice dates, noting whether or not the certificate date precedes the invoice/obligation date and was recorded as an encumbrance in the proper year.

Note:

- The obligation date may precede the invoice date. If separately identified, use the obligation date when determining compliance.
- As interpreted by AOS Bulletin 97-012, if the government does not expect to complete the project in the current year, the remainder of the project must be appropriated immediately in the subsequent year(s).

Inspect a representative number of “regular blanket” certificates outstanding near year end and determine that:

- The amount is established by an ordinance or resolution passed by a majority of the legislative body. (If the legislative authority passed this in the prior years, agree to permanent file documentation.)
- They are not dated after the fiscal year end.
- They do not exceed the amount the legislative body established.
- Only one certificate is outstanding per line item appropriation.

For subdivisions using “super blanket” certificates, inspect the certification of the fiscal officer and determine whether:

- The certificates were for professional services, fuel, oil, food items or any other specific recurring and reasonably predictable operating expense and,
- They do not run beyond the fiscal year (or quarterly spending plan, if a county adopted a plan).

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-3 Compliance Requirement:** Ohio Rev. Code §5705.40 Amending or supplementing appropriations, contingencies.

**Summary of Requirements:** Any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. “Transfers” \* may be made by resolution or ordinance from one appropriation item to another. Subject to certain limitations, the annual appropriation measure may contain an appropriation for contingencies.

Rulings filed in the case of C. B. Transportation, Inc. v. Butler County Board of Mental Retardations, 60 Ohio Misc. 71, 397 N.E.2d 781 (C.P. 1979), as well as Burkholder v. Lauber, 6 Ohio Misc. 152 (1965), held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a local government’s governing board would be prohibited from delegating duties statutorily assigned to it, such as the ability to amend appropriations as provided for in Ohio Rev. Code §5705.40.

Per AOS Bulletin 97-010, budgeted expenditures coincide with either the final appropriations the legislative body passed prior to fiscal year-end or the sum of those final appropriations plus encumbrances carried forward from the prior year. *That is, the AOS does not recognize appropriation amendments retroactive to the prior year.* The statutory budget process codifies what are or should be good management practices. These processes provide a framework that helps management and legislators reasonably control spending.

\* “Transfers” in this context mean reallocations of appropriations within a fund. These do not refer to transfers of cash between funds.

<b>In determining how the government ensures compliance, consider the following:</b>	<b>What control procedures address the compliance requirement?</b>	<b>W/P Ref.</b>
<ul style="list-style-type: none"> <li>• Accounting system capable of recording appropriations and comparing them to actual results.</li> <li>• Reconciling appropriation totals to totals recorded in the accounting system.</li> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Comparison of Outstanding Encumbrances and Balances to Proposed Amendments</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of</li> </ul>		

changes in laws and regulations to employees		
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**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Inquire (or determine from reading the minutes) if amended or supplemental appropriation measures have been passed.

Inspect the government’s records to determine if selected appropriation amendments were accurately and timely posted into an accounting system that integrates budget and actual receipts and disbursements. If the client uses a manual system (i.e. spreadsheets) determine if the manual system used by the client adequately tracks and compares budgetary data. Base the extent of this testing on the control environment, especially the CFO’s competence and dedication to complying with Ohio Revised Code requirements, past errors noted, etc.

Match appropriations amendments, supplements and intrafund appropriation “transfers” recorded in the accounting system with resolutions or ordinances.

*Note:* We suggest you test the general and other major / large funds and perhaps rotate a few smaller funds each audit.

- o However, normally scanning the fund-accounting records and listing noncompliance as of year end is not time consuming. This should be a reliable test if evidence suggests the auditee accurately records all budgetary amendments into its accounting system, and if the system reports negative variances.
- o Also consider including funds for which we reported noncompliance in the prior audit.

There is rarely a need to “recreate” the budget in the working papers. That is, we do not require a spreadsheet listing all funds’ estimated resources, appropriations (and amendments thereto), receipts, disbursements, and encumbrances.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**



**REQUIREMENTS OF REVENUE, FUNDS, AND TRANSFERS**

**1-4 Compliance Requirement:** Ohio Rev. Code §5705.09 and 5705.12 Establishing funds and Permission to establish funds.

**Summary of Requirements:** Each subdivision must establish the following funds:

- General fund;
- Sinking fund whenever the subdivision has outstanding bonds other than serial bonds;
- Bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness;
- A special fund for each special levy;
- A special bond fund for each bond issue;
- A special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose;
- A special fund for each public utility operated by a subdivision;
- A trust fund for any amount received by a subdivision in trust.

Additionally subdivisions should establish the funds described in Ohio Rev. Code §5705.121, 5705.13, 5705.131, 5709.43, 5709.75, and 5709.80 when applicable. Establishing these funds (or other funds statutes mandate) does not require Auditor of State authorization.

However, should a taxing authority desire to establish other funds not authorized in the Ohio Revised Code, they must obtain **approval of the Auditor of State**. The subdivision may provide by ordinance or resolution that money derived from special sources other than the general property tax shall be paid directly into such funds.

It is necessary to request the Auditor of State's permission to establish any fund not specifically authorized by statute or when the purpose of the fund is not identified in the Ohio Rev. Code, such as (but not limited to) §5705.09 (A) - (H). Situations requiring Auditor of State approval include:

- When management wishes to create a new fund in order to capture additional financial information about a specific source of revenue or a specific activity;
- When the fund will account for restricted gifts or bequests that will not be held in trust; and
- When management wants to impose internal restrictions on the use of otherwise unrestricted resources.

In some circumstances, the AOS deems the use of additional funds unnecessary and will not approve the request. See AOS Bulletin 1999-006 for additional information.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of Effective Accounting System</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Periodic Reviews of Fund Ledgers</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Compare funds on the subdivision’s chart of accounts with funds that existed in the prior audit period.

For any new funds, apply the following steps:

- Inspect authority (e.g., board resolution) to establish the fund.
  - *Note: The legislative body of a local government may always specify, for management purposes, how they want specific resources spent. Absent any statutory restrictions on such resources, an internal purpose restriction does not justify the creation of a separate fund. New funds must be created based on the guidelines in AOS Bulletin 1999-006.*
- Determine code section under which established.
- If not established under State statute, inspect Auditor of State approval letters for funds created during the current audit period.
  - If a fund is not authorized under Ohio Rev. Code §5705.09 or another Ohio Rev. Code section and the entity did not receive Auditor of State approval to establish the fund, propose findings for adjustment to remove the unauthorized fund(s) and place the activity in the General Fund or other appropriate fund. *(If the fund was set up properly for GAAP purposes a finding for adjustment may not be necessary. Additionally, we will not apply this retroactively to funds existing from prior audit periods. )*
- Read ordinances and resolutions regarding how monies derived from special sources are to be used. Trace a representative number of receipts into the funds or accounts required by the ordinances or resolutions.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**Revised: HB 483, 130<sup>th</sup> GA**  
**Effective: 9/15/14**

**1-5 Compliance Requirement:** Ohio Rev. Code §5705.05-.06, 5705.10, 5705.14(E), 5731.48, and 3315.20(A). Distributing revenue derived from tax levies, proceeds from sale of bond issue, proceeds from sale of permanent improvement, and depositing estate taxes into the general fund

**Summary of Requirements:**

- All revenue derived from the following must be paid into the general fund [Ohio Rev. Code § 5705.10, unless otherwise indicated below]:
  - the general levy for current expense within the ten mill limitation,
  - any general levy for current expense authorized by vote in excess of the ten mill limitation, and from sources other than the general property tax, unless its use for a particular purpose is prescribed by law (see the circumstances requiring a separate fund in the preceding OCS Step)
    - Counties are precluded from using general levy revenue for current expenses for the construction, reconstruction, resurfacing, and repair of roads and bridges. [Ohio Rev. Code §5705.05 & .06]. Other entities (except counties) may transfer general levy revenue for current expenses to Road and Bridge Funds via a resolution passed by a simple majority of the governing authority [Ohio Rev. Code §5705.14(E)] or may pay for these expenses directly from the General Fund [Ohio Rev. Code §5705.05 & .06].
  - Estate taxes received by a township or municipal corporation under Ohio Rev. Code § 5731.48
    - **Exceptions:**
      - Villages: (A)(2) To the general revenue fund of a village or to the board of education of a village, for school purposes, as the village council by resolution may approve;
      - Townships: (A)(3) To the general revenue fund or to the board of education of the school district of which the township is a part, for school purposes, as the board of township trustees by resolution may approve, in the case of a township.
      - Municipal Corporations: (D) If a municipal corporation is in default with respect to the principal or interest of any outstanding notes or bonds, one half of the [estate] taxes distributed under this section shall be credited to the sinking or bond retirement fund of the municipal corporation, and the residue shall be credited to the general revenue fund.
- All revenue derived from general or special levies for debt charges which is levied for the debt charges on serial bonds, notes, or certificates of indebtedness having a life less than five years, must be paid into the bond retirement fund. All such revenue which is levied for the debt charges on all other bonds, notes, or certificates of indebtedness is to be paid into the sinking fund [Ohio Rev. Code § 5705.10(B)].
- All revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made [Ohio Rev. Code §5705.10(C)].<sup>15</sup>

<sup>15</sup> Townships receiving distributions from the Gasoline Excise Tax Fund in the state treasury are permitted to use that money to pay debt service on State Infrastructure Bank obligations. (Ohio Rev. Code §§5531.10 and 5735.27)

- All revenue derived from a source other than the general property tax and which the law prescribes, shall be used for a particular purpose is to be paid into a special fund (see step 1-4 for a listing of possible “special” funds) for such purpose [Ohio Rev. Code §5705.10].
- All proceeds from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code §133.01, *except premium and accrued interest*, are to be paid into a special fund for the purpose of such issue. Any interest earned on money in the special fund may be used for the purposes for which the indebtedness was authorized, or may be credited and used for an authorized fund or account [Ohio Rev. Code § 5705.10(E)].
- The *premium* and *accrued interest* received from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code §133.01 is to be paid into the subdivision's sinking fund or the bond retirement fund [Ohio Rev. Code § 5705.10(E)].

**Note:** We wish to emphasize to governments and to their auditors the importance of complying with this. We have seen recent instances where investors desire interest payments exceeding market rates. They are willing to exchange the necessary up-front payment (*premium*) to obtain these returns in the future. When this occurs, debt proceeds will include the premium, which may be a substantial amount. If the debt is restricted for a capital project (for example), governments should *not* deposit the premium into a capital project fund. Instead, Ohio Rev. Code § 5705.10(E) prudently requires governments to deposit the premium in a sinking / bond retirement / debt service fund, to set aside amounts for the above-market interest payable over the debt's duration.

Depositing premiums (or accrued interest) into a fund other than the sinking / bond retirement would violate the requirements above, and be subject to a finding for adjustment, see Auditor of State Bulletin 2014-001 for more information.

- If a board of education of a school district disposes of real property under Ohio Rev. Code § 3313.41, the proceeds received on or after September 29, 2013, from the sale shall be used to either:
  - Retire any debt that was incurred by the district with respect to that real property. Proceeds in excess of the funds necessary to retire that debt may be paid into the school district's capital and maintenance fund and used only to pay for the costs of nonoperating capital expenses related to technology infrastructure and equipment to be used for instruction and assessment fund, or
  - Payed into a special fund for the construction or acquisition of permanent improvements [Ohio Rev. Code § 5705.10(H)].
- If a park district enters into an agreement for the sale or lease of mineral rights regarding a park within the district, the royalties or moneys from that sale or lease must be deposited into a special fund created by the board of park commissioners to be used exclusively for the maintenance of parks within the District or for acquisition of new park lands [Ohio Rev. Code § 1545.23].
- If a permanent improvement of the subdivision is sold, the amount received from it shall be paid into the sinking fund, the bond retirement fund, or into a special fund for the construction or acquisition of permanent improvements [Ohio Rev. Code § 5705.10(F)].<sup>16</sup> However, after a county home has been

<sup>16</sup> Ohio Rev. Code § 5705.10(F) & (G), include an exception for certain townships, with a population greater than 15,000, having used township tax increment financing (TIF) for real property in the township according to the most recent federal decennial census. These townships may pay proceeds from the sale of a permanent improvement of

closed as provided by Ohio Rev. Code § 5155.31, the board of county commissioners may sell or lease any part of the county home farm, and all receipts from such sales or leases shall be paid to the county treasurer and credited to the general county fund, and shall be subject to appropriation for such purposes as the board decides [Ohio Rev. Code § 5155.33].

- Proceeds from the sale of a public utility are to be paid into the sinking fund or bond retirement fund to the extent necessary to provide for the retirement of the outstanding indebtedness incurred in the construction or acquisition of such utility [Ohio Rev. Code § 5705.10(F)].
- Proceeds from the sale of property other than a permanent improvement are to be paid into the fund from which such property was acquired or is maintained, or if there is no such fund, into the general fund [Ohio Rev. Code § 5705.10(F)].
- Monies collected under Ohio Rev. Code § 4501.04, 5735.23, and 5735.27 must be deposited into a special fund for the purpose of street construction and maintenance. This includes gas tax and license taxes distributed through the county. [Ohio Rev. Code § 5735.28] However, if the municipal corporation sits on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway then 7.5% of the monies will be posted to a state highway fund.

Note: Also, the \$5 or \$10 license taxes that can be levied by a municipality under Ohio Rev. Code Chapter 4504 can be receipted directly into a Permissive MVL fund.

- Money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance<sup>17</sup> indicates that money from one fund was used to cover the expenses of another fund [Ohio Rev. Code § 5705.10(I)]. However, Ohio Rev. Code § 3315.20 provides an allowable exception for school districts. A school district may have a deficit in any special fund (see step 1-4 for a listing of possible “special” funds) of the school district, but only if all of the following conditions are satisfied:
  - The school district has a request for payment pending with the state sufficient to cover the amount of the deficit [Ohio Rev. Code § 3315.20(A)]
  - There is a reasonable likelihood that the payment will be made [Ohio Rev. Code § 3315.20(A)]
  - The unspent and unencumbered balance in the school district’s general fund is greater than the aggregate of deficit amounts in all of the school district’s special funds. [Ohio Rev. Code § 3315.20(B)]

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the township into its general fund if both of the following conditions are satisfied: (see bullets below or on next page)

- The Township fiscal officer determines that all foreseeable “public infrastructure improvements” to be made in the township in the 10 years immediately following the date the permanent improvement is sold will have been financed through township TIF on or before the date of the sale. Written certification of this determination must be made part of the township’s records.
- The permanent improvement being sold was financed entirely from moneys in the township’s general fund.

<sup>17</sup> There is no legal authority addressing whether encumbrances are to be included when analyzing fund balances. Ohio Rev. Code § 5705.10 does not explicitly prohibit an entity from having a negative fund balance. Instead, we cite to Ohio Rev. Code § 5705.10 because restricted funds were used for other purposes. Therefore, do not include encumbrances when analyzing compliance with Ohio Rev. Code § 5705.10.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of Effective Accounting System</li> <li>• Periodic Reviews/Comparisons of Budgeted and Actual Revenues</li> <li>• Independent Inspection/Comparison of Revenues to Source Documents</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

1. Trace a representative number of receipts from tax levies, bond issues, and sales of permanent improvements, to the funds. Note: Because recording receipts to an incorrect opinion unit is a misstatement, auditors should test these transactions to the extent required to reasonably assure there was no material misstatement. Also, auditors should consider reporting noncompliance for misposting to incorrect funds (rather than opinion units) as described in the *Finding for Adjustment* guidance in the *Ohio Compliance Supplement Implementation Guide*.
2. Trace selected estate tax proceeds to the credit of the municipality’s or township’s general fund. If in default on bonds or notes, municipalities should apportion 50% of the net proceeds each to the debt service and general funds.
3. Trace significant interest earned on bond proceeds to the credit of (1) a fund used for purposes for which the debt was authorized, or (2) the general fund. [Ohio Rev. Code § 5705.10(E)] (Note: Proceeds exclude accrued interest and premiums, which the entity must credit to the sinking or bond retirement fund. Refer to Bulletin 2014-001) Also note that this interest may be subject to Federal arbitrage regulations—AOS staff should refer to the arbitrage procedures in the specimen debt audit program.
4. Inspect accounting ledgers or month end reports as of fiscal year end and for selected periods during the year. Determine whether significant negative fund balances existed.

*Note: When a fund ends the year with negative cash, it is inappropriate to present an “advance” on the budgetary statement to eliminate the negative cash fund balance. Even though, in substance, the government has made an advance, it is not acceptable to “hide” noncompliance by creating an advance not properly authorized by the government. However, a government should post an*

*interfund receivable and payable to eliminate the negative cash balance on the GAAP financial statements. The government should select the fund to report the receivable.*

5. If negative fund balances are identified for a school district, determine whether the school district met the allowable exception conditions above by:
  - *Inspecting* the school district's Project Cash Request (PCR) forms. In most cases, these forms will be available for viewing online in ODE's Comprehensive Continuous Improvement Plan (CCIP) application at <https://ccip.ode.state.oh.us/default.aspx?ccipSessionKey=634588550645675891>.
  - Computing the unspent and unencumbered balance in the school district's general fund and vouching whether it is greater than the aggregate of deficit amounts in all of the school district's special funds.
6. If a school district disposed of real property, determine whether the school district used the proceeds received from the sale to retire any debt that was incurred by the district with respect to that real property.

Note: The proceeds received from the sale shall be used to retire any debt that was incurred by the district with respect to that real property. Proceeds in excess of the funds necessary to retire that debt may be paid into the school district's capital and maintenance fund and used only to pay for the costs of nonoperating capital expenses related to technology infrastructure and equipment to be used for instruction and assessment fund, or payment into a special fund for construction or acquisition of permanent improvements.

7. If a park district enters into an agreement for the sale or lease of mineral rights regarding a park within the district, confirm that the royalties or moneys from that sale or lease were deposited into a special fund created by the board of park commissioners.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-6 Compliance Requirements:** Ohio Rev. Code § 5705.05-.06, 5705.14, 5705.15, and 5705.16 Transfer of funds (*Refer to Appendix A-1 in the OCS Implementation Guide for a more detailed discussion on what constitutes a “transfer” under Ohio Rev. Code § 5705.14 - .16.*)

**Summary of Requirements:** No transfer can be made from one fund of a subdivision to any other fund, except as follows:<sup>18</sup>

- The unexpended balance in a bond fund [i.e. a capital project fund financed with bond proceeds] that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable. [Ohio Rev. Code § 5705.14(A)]
- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision. [Ohio Rev. Code § 5705.14(B)]
- Except as provided below, the unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the bond retirement fund, and in the case of the bond retirement fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any other fund of the subdivision with the approval of the court of common pleas of the county in which such division is located. [Ohio Rev. Code § 5705.14(C)(1)]
  - Money in a bond fund or bond retirement fund of a city, local, exempted village, cooperative education, or joint vocational school district may be transferred to a specific permanent improvement fund provided that the county budget commission of the county in which the school district is located approves the transfer upon its determination that the money transferred will not be required to meet the obligations payable from the bond fund or bond retirement fund. In arriving at such a determination, the county budget commission shall consider the balance of the bond fund or bond retirement fund, the outstanding obligations payable from the fund, and the sources and timing of the fund's revenue. [Ohio Rev. Code § 5705.14(C)(2)]
- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund. [Ohio Rev. Code § 5705.14(D)]
- Money may be transferred from the general fund to any other fund of the subdivision [Ohio Rev. Code § 5705.14(E)]. Note: 1989 Op. Atty. Gen. No. 89-075 requires a governing board resolution passed by a simple majority of the board members to transfer funds.<sup>19</sup>

<sup>18</sup> GASB 2300.127(and therefore OCBOA presentations) requires certain disclosures regarding the amounts and purposes of transfers in the notes to the financial statements.



- Counties are precluded from transferring general levy revenue for current expenses to other county funds for the construction, reconstruction, resurfacing, and repair of roads and bridges. [Ohio Rev. Code §5705.05 & .06]. Other entities (except counties) may transfer general levy revenue for current expenses to Road and Bridge Funds via a resolution passed by a simple majority of the governing authority [Ohio Rev. Code §5705.14(E)].
- Moneys retained by a county in accordance with Ohio Rev. Code § 4501.04 (auto registration distribution fund), or in accordance with Ohio Rev. Code § 5735.27 (gasoline excise tax fund), may be transferred from the fund into which they were deposited to the sinking fund or bond retirement fund from which any principal, interest, or charges for which such moneys may be used is payable. [Ohio Rev. Code § 5705.14(F)]
- Moneys retained or received by a municipal corporation under Ohio Rev. Code § 4501.04 (motor vehicle license tax), or division (A) (1) or (2) of Ohio Rev. Code § 5735.27 (motor vehicle fuel excise taxes), may be transferred from the fund into which they were deposited to the sinking fund or bond retirement fund from which any principal, interest, or charges for which such moneys may be used is payable. [Ohio Rev. Code § 5705.14(G)]
- After payment of the expenses of conducting and managing the water works, any surplus of a municipal corporation's water fund may be applied to the repairs, enlargement, or extension of the works or of the reservoirs, the payment of the interest of any loan made for their construction, or for the creation of a sinking fund for the liquidation of the debt. In those municipal corporations in which water works and sewerage systems are conducted as a single unit, under one operating management, a sum not to exceed ten per cent of the gross revenue of the water works for the preceding year may be taken from any surplus remaining after all of the preceding purposes have been cared for and may be used for the payment of the cost of maintenance, operation, and repair of the sewerage system and sewage pumping, treatment, and disposal works and for the enlargement or replacement thereof. Each year a sum equal to five per cent of the gross revenue of the preceding year shall be first retained from paid surplus as a reserve for waterworks purposes. The amount authorized to be levied and assessed for waterworks purposes shall be applied by the legislative authority to the creation of the sinking fund for payment of any indebtedness incurred for the construction and extension of water works and for no other purposes; provided, where such municipal corporation does not operate or maintain a water works or a sewage pumping, treatment, and disposal works, any or all such surplus may be transferred to the general fund of the municipal corporation in the manner provided for in sections 5705.15 and 5705.16 of the Revised Code<sup>20</sup>. [Ohio Rev. Code § 743.05]
- Money may be transferred from the County Developmental Disabilities general fund to the County Developmental Disabilities capital fund established under Ohio Rev. Code § 5705.091, or to any other fund created for purposes of the County Board of Developmental Disabilities so long as it is

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<sup>19</sup> AOS interprets this requirement to mean that a governing board may approve interfund transfers from the general fund to other funds of the subdivision within its annual appropriation measure provided that the measure was passed by a simple majority of the board members.

<sup>20</sup> In other words, if there is an excess in the water works fund and the municipality has its own water works operation, the excess can only be used for expenses related to the operation, maintenance, or expansion of the waterworks. Not all municipalities have their own waterworks system. Therefore, some municipalities may provide water to their residents by obtaining the water from another source. Where this is the case, if (after satisfying expenses related to furnishing water) there is an excess, the municipality may transfer the excess to its general fund.

spent for the particular purpose of the transfer. An unexpended balance in an account may be transferred back to the County Developmental Disabilities general fund. Transfers shall be done by resolution of the Board of County Commissioners. [Ohio Rev. Code §5705.14(H)]

- Money may be transferred from the public assistance fund established under section 5101.161 of the Revised Code to either of the following funds, so long as the money to be transferred from the public assistance fund may be spent for the purposes for which money in the receiving fund may be used [Ohio Rev. Code §5705.14(I)]:

- (1) The children services fund established under Ohio Rev. Code § 5101.144;
- (2) The child support enforcement administrative fund established, as authorized under rules adopted by the director of job and family services, in the county treasury for use by any county family services agency.

- Money may be transferred among various funds and accounts from which a loss was directly attributable to allocate insurance and self insurance program costs, including deductibles, under Ohio Rev. Code § 2744.08 and 2744.082. If a subdivision or joint self-insurance pool makes such an allocation or requires the payment of deductibles from specific funds or accounts, the subdivision's fiscal officer, pursuant to an ordinance or resolution of the subdivision's legislative authority, must transfer amounts equal to those costs or deductibles from the funds or accounts to the subdivision's general fund if both of the following apply:

- (1) the subdivision requests payment from the employee responsible for the funds or accounts for those costs or deductibles [Ohio Rev. Code § 2744.082(A)(1)], and
- (2) the employee receiving the request fails to remit payment within 45 days after the date the request is received [Ohio Rev. Code § 2744.082(A)(2)].

- Except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for general fund transfers though a resolution passed by a simple majority is required. A simple majority constitutes a quorum of greater than 50% of the members.) [Ohio Rev. Code § 5705.14 & .16]

Per Ohio Rev. Code § 5705.15 & .16: In addition to the transfers listed above, which Ohio Rev. Code § 5705.14 authorizes, the taxing authority of any political subdivision, with the approval of the Court of Common Pleas<sup>21</sup>, may transfer from one fund to another any public funds under its supervision, *except* the proceeds or balances of:

- loans,
- bond issues,
- special levies for the payment of loans or bond issues,
- the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, and
- the proceeds or balances of any license fees imposed by law for a specified purpose.

<b>In determining how the government ensures compliance, consider the following:</b>	<b>What control procedures address the compliance requirement?</b>	<b>W/P Ref.</b>
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<sup>21</sup> Under Ohio Rev. Code § 5705.16, approval of the Tax Commissioner is also required in certain circumstances.

<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Periodic Reviews/Comparisons of Budgeted and Actual Transfers</li> <li>• Independent Inspection/Comparison of Transfers to Source Documents</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of Effective Accounting System</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		
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**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Note: Except for “prior approval by the governing authority”, transfers fail the “existence” assertion unless they satisfy the aforementioned legal requirements. Therefore, noncompliant transfers (e.g., material transfers from the self insurance fund that are unsupported or transfers that permit spending the transferred amount in violation of its restricted purpose) represent misstatements and may require findings for adjustment. See Appendix A-1 in the *OCS Implementation Guide* for more information on determining allowability for Transfers and Advances. Auditors should also refer to the finding for adjustment guidance in the Ohio Compliance Supplement *Implementation Guide*.

Inspect documents authorizing transfers during the audit period and determine that transfers involving balances described below met the requirements above:

- Unexpended bond balance;
- Permanent improvement balance;
- Bond retirement;
- Special fund;
- Auto registration;
- Resolution;
- Municipal corporation;
- Public assistance;
- Developmental disabilities.

Determine if any material transfers were made from the proceeds or balances of:

- loans,
- bond issues,
- special levies for the payment of loans or bond issues,
- the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, or

- the proceeds or balances of any license fees imposed by law for a specified purpose.

Determine if selected transfers were authorized by vote of the governing board as described above.

If applicable, determine if selected transfers were authorized by the County Budget Commission, Court of Common Pleas, or Tax Commissioner as described above.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-7 Compliance Requirements:** Though no statutory provisions directly address inter-fund *advances*, the following requirements are in part derived from Ohio Rev. Code §: 5705.10 (restriction on the purpose for which funds may be used); 5705.14, 5705.15, and 5705.16 (transfer of funds); 5705.39 (appropriations limited to estimated resources); 5705.41 (restriction on appropriation/ expenditure of money); and 5705.36 (certification of available revenue). Auditor of State Bulletin 97-003 sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions.

Note: This section applies when a subdivision purchases its own debt with its debt service fund cash, etc. pursuant to Ohio Rev. Code § 133.29 and accounts for it as *advances* and *interfund activity* in its financial statements. However, refer to OCS step 1-17 if the subdivision accounts for a purchase of its own debt as an *investment* and *debt*. See AOS Bulletin 97-001, Ohio Rev. Code § 133.03 and 133.29, and Appendix A-1 of the *OCS Implementation Guide* for additional guidance on legal requirements applicable to intra-entirety borrowing. Ohio Compliance Supplement Chapter 1, step 17 describes the legal compliance requirements for the issuance and retirement of manuscript debt.

**Summary of Requirements:** Inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans and to provide the necessary "seed" for grants that are allocated on a reimbursement basis. The intent for cash advances is to require repayment within the current or succeeding year. Inter-fund cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Ohio Rev. Code § 5705.14 to 5705.16. Advances, on the other hand, *temporarily* reallocate cash from one fund to another and involve an expectation of repayment;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The debtor fund may repay advances from the creditor fund. That is, the AOS would not deem repaying advances to violate restrictions on use of the debtor's fund resources; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
  - A specific statement that the transaction is an advance of cash, and
  - An indication of the money (fund) from which it is expected that repayment will be made.
- When a fund ends the year with negative cash, it is not appropriate to present an *advance* on the budgetary statement to eliminate the negative cash fund balance. Even though, in substance, the government has made an advance, it is not acceptable to "hide" noncompliance by creating an advance not properly authorized by the government. However, the government should post an interfund receivable and payable to eliminate the negative cash balance on the GAAP financial statements. The government should select the fund to report the receivable.

#### Other Budgetary Considerations

The advances-out (initial loan and repayment) in the creditor (loaning) and debtor (borrowing) funds do not require appropriation as advances represent temporary allocations of resources. However, an amended official certificate of estimated resources should be obtained to reflect the reduced fund balance in the

creditor fund and the increased fund balance in the debtor fund. Creditor fund appropriations must be evaluated based on the reduced estimated resources, and appropriation reductions may be required. Prior to obligation of advanced funds, the debtor fund must have sufficient appropriations to cover the anticipated expenditures.

Additionally, when a cash advance is outstanding at the beginning of a fiscal year in which repayment is expected, an adjustment is required to the total resources available for expenditure in the creditor and debtor funds. The unencumbered cash balance of the creditor fund must be increased by the amount of repayment expected during the fiscal year to produce the “carryover balance available for appropriation.” Similarly, the unencumbered cash balance in the debtor fund must be reduced by the amount of repayment expected during the fiscal year to produce “carryover balance available for appropriation.” This adjustment is made on the “certificate of the total amount from all sources available for expenditures, and balances” filed with the County Budget Commission pursuant to Ohio Rev. Code § 5705.36.

The official certificate of estimated resources must be prepared and provided in cases in which the Budget Commission waives the requirement that the taxing authority of a subdivision adopt a tax budget. Ohio Rev. Code §5705.281(A) indicates the county budget commission by an affirmative vote of a majority of the commission, including an affirmative vote by the county auditor, may waive the requirement that the taxing authority of a subdivision or other taxing unit adopt a tax, but the taxing authority is still required to provide information to the commission in order for it to perform its duties, including dividing the rates of each of the subdivision’s or taxing unit’s tax levies. In addition, Ohio Rev. Code §5705.34 requires the budget commission to certify its action to the taxing authority. Ohio Rev. Code §5705.35(A) makes reference to “The certification of the budget commission to the taxing authority of each subdivision or taxing unit as set forth in section 5705.34 of the Revised Code...”, and indicates that “There shall be attached to the certification a summary, which shall be known as the ‘official certificate of estimated resources’, that shall state the total estimated resources of each fund of the subdivision that are available for appropriation in the fiscal year...”.

Conversion to a Transfer

If, after an advance is made, the taxing authority determines that the transaction should, in fact, be treated as a transfer (repayment is no longer expected) the following procedures should be followed retroactively:

- The necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas (see Ohio Rev. Code §5705.14, 5705.15 and 5705.16);
- The transfer should be formally recorded on the records of the subdivision; and
- The entries recording the cash advance should be reversed.

Accounting for Manuscript Debt as an Advance and Interfund Activity

Before a taxing authority sells any securities of the subdivision to others, the taxing authority may offer the securities at their purchase price and accrued interest to the officer or officers who have charge of the bond retirement fund of the subdivision, or in the case of a municipal corporation, to the treasury investment board for investment under §731.56 of the Ohio Rev. Code, or an officer or similar treasury investment board having the authority under a charter. (Ohio Rev. Code §133.29(A)). This type of debt is often referred to as “manuscript debt”. See the Manuscript Debt section in chapter 1 for more information.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of Effective Accounting System</li> <li>• Independent Inspection/Comparisons of Advances and Source Documentation</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

If advance transactions occurred, review authorizing legislation and accounting records. Determine whether the advance transactions were in amounts and between accounting funds approved in the authorizing legislation.

Based on knowledge of the entity’s operations and review of levy legislation or other appropriate documents, determine whether the creditor fund’s purpose was reasonably consistent with the debtor fund’s purpose.

Determine whether prior period advances are outstanding. If advances have not been repaid within a reasonable period or within the period specified (if any) in the authorizing legislation, determine through inquiry of appropriate client officials when the advance will be repaid.

If the client no longer intends for the advance to be repaid or repayment is unlikely, ~~recommend that issue a finding for adjustment if the amounts are material and the client does not~~ take appropriate steps to convert the advance to a transfer following the above procedures.

If advances have been converted to transfers, determine whether the transfer requirements summarized in Ohio Compliance Supplement Section 1-6 have been complied with retroactively.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-8 Compliance Requirement:**

- Ohio Rev. Code § 5705.13(A) - Reserve balance accounts and funds;
- Ohio Rev. Code § 5705.13(B) – A special revenue fund may be established to accumulate cash for severance payments or salaries when the number of pay periods exceeds the usual and customary number for a year;
- Ohio Rev. Code § 5705.13(C) – capital projects fund(s) may be established to accumulate resources to acquire, construct, or improve fixed assets.

**Summary of Requirements:**

- Ohio Rev. Code § 5705.13(A) allows a taxing authority of a subdivision to establish, by resolution, a reserve balance account<sup>22</sup> for each of the three following purposes:
1. Budget stabilization: may be created in the general fund or in any special fund used for operating purposes. The amount reserved in the account in any fiscal year must not exceed 5% of the fund's revenue for the preceding fiscal year<sup>23</sup>. The reserve balance is excluded from the unencumbered balance when certifying available balances at year-end. The reserve for budget stabilization may be reduced or eliminated at any time by the taxing authority.
  2. Self-insurance program: may be created in the general fund or in the internal service fund established to account for the operation of the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.
  3. Retrospective Ratings Plan for Workers' Compensation<sup>24</sup>: may be created in the general fund or in the internal service fund established to account for the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.
1. Ohio Rev. Code § 5705.13(B) allows a taxing authority to establish a special revenue fund to accumulate cash to pay accumulated leave, or for paying salaries when the number of pay periods exceeds the usual and customary number for a year. This leave includes payments for accumulated sick leave and vacation leave, or for payments in lieu of taking compensatory time off, upon the termination of employment or retirement. Money may be transferred to this fund from any fund from which the termination or salary payments could lawfully be made. The reserve must be established by

<sup>22</sup> Ohio Rev. Code §5705.13 refers to these accounts as “reserve” accounts. However, for the GASB 54 financial reporting AOS Bulletin 2011-004 describes, the criterion for using the budget stabilization is not specific enough to meet the *committed* criteria and it does not meet the *restricted* criteria as the budget stabilization is not mandated by State statute. Therefore, a budget stabilization/reserve account should be reported as *unassigned* in the general fund. While statute also gives the authority to have stabilization reserve accounts in other operating funds, the fund balance is reported as *restricted, committed, or assigned* and the reserve account does not change the fund balance classification. Entity wide statements should report these as part of *unrestricted* net assets.

<sup>23</sup> In the case of a reserve balance account of a county or of a township, the budget stabilization amount can be the greater of 5% of the fund's revenues from the preceding fiscal year or one-sixth of the expenditures during the preceding fiscal year from the fund in which the account is established. [Ohio Rev. Code § 5705.13 (A) (3)]

<sup>24</sup> Various plans to provide for the payment of claims, assessments, and deductibles are allowed. Plans allowed are: payments under a self-insurance program, individual retrospective ratings plan, group rating plan, group retrospective rating plan, medical only program, deductible plan, or large deductible plan for workers' compensation.



resolution or ordinance and the taxing authority may rescind the fund at any time with the accumulated resources being returned to the fund from which they came. Amounts accumulated in this fund should be reasonable based on the taxing authority's estimated liability for benefits.

2. Ohio Rev. Code § 5705.13(C) provides that a taxing authority may create, by resolution, one or more capital projects funds<sup>25</sup> to accumulate resources for the acquisition, construction, or improvement of fixed assets, including motor vehicles. Each fund must be created by ordinance or resolution. The resolution or ordinance must identify the asset(s) to be acquired, the amount needed to be accumulated, the period over which the amount will be accumulated (with a limit of ten years from the date of the resolution or ordinance), and the source of the resources. Despite Ohio Rev. Code §5705.14 through .16, money may be transferred to the capital projects fund from any other fund that could acquire, construct or improve the fixed assets. If a contract for the fixed asset(s) has not been entered into before the ten-year period expires, the money is returned to the fund from which it was transferred or that was originally intended to receive it. The taxing authority may rescind a capital projects fund at any time with the accumulated resources being returned to the fund from which they came. Auditor of State approval is not required for this transfer.
- Ohio Rev. Code § 5705.132 permits *townships* to establish by resolution reserve balance accounts in addition to those described above to accumulate currently available resources for any purpose for which the board of township trustees may lawfully expend township money.<sup>26</sup> The resolution must state the:
- Specific purpose for which a reserve balance account is established,
  - Fund within which it is established,
  - Fund or account from which money will be transferred to it,
  - Number of years it will exist [there is a five year cap on how long the account may be in existence]
  - Maximum total amount of money that may be credited to it during its existence; and
  - Maximum amount of money to be credited to it each fiscal year it exists

Reserve balance accounts established under this authority may exist for not more than five years beginning with the year in which money is first set aside. In addition, money in such an account can be expended only for the purpose for which the account is established.

Money may be transferred to these new reserve balance accounts from another township fund or account only if money in that fund or account may lawfully be expended for the purpose for which the new reserve balance account is created. Townships may create more than one reserve balance account under this section. However, the total amount of money credited to *all* of the reserve balance accounts established under this section cannot exceed, **at any time in any fiscal year**, 5% of the total of the township's revenue from all sources for the preceding fiscal year, plus any unencumbered balances carried over to the current fiscal year from the preceding fiscal year. There are three

<sup>25</sup> Similar to the preceding note, governments should report these amounts as *committed, assigned, or restricted fund* balance as appropriate under the circumstances described in GASB 54 in governmental fund statements. Entity wide statements should report this equity as part of *unrestricted net assets*, because the restrictions are not externally imposed.

<sup>26</sup> Similar to reserve balance accounts created under existing law, reserves created under this section are not considered as an unencumbered balance or revenue of the township for purposes of annual budget reviews by the county budget commission. They are also not considered as an unencumbered balance or revenue for purposes of apportioning the county's undivided local government fund and the undivided local government revenue assistance fund.

important aspects of this restriction. First, be aware that it is based on revenues only. Other financing sources such as debt proceeds or transfers will not count toward the calculation of the limitation.<sup>27</sup> Second, recognize that this language has the effect of allowing the same dollars to be counted twice in calculating the limitations, first when they were received in the prior year and second to the extent they are carried over as unencumbered into the current year. Finally, notice that the amount of the limitation changes each year because it is based on the preceding year’s revenues.

If a township does not expect to spend the money set-aside in a reserve balance account in the upcoming year, the money in the reserve balance account need not be included in the certificate of year-end balances filed with the budget commission at the beginning of the year. If the township plans to spend the money that has been set aside, the township should include the money in the certificate of year-end balances. The money will then be included in the amended certificate of estimated resources and may be appropriated and spent during the year. Appropriations should be made to an account that reflects the purpose of the reserve. Appropriations should not be made to, nor expenditures made from, a reserve balance account. For example, assume in 2006 a township created a reserve balance account not to exceed \$40,000 in the motor vehicle license tax fund to purchase a new mower. \$10,000 is set aside each year from 2006 through 2009. In 2010, the \$40,000 is included in the certificate of year-end balances and appears as part of the amended certificate. The money is appropriated in the capital outlay account in the motor vehicle license tax fund and the new mower is purchased.<sup>28</sup>

Upon the expiration or rescission of a reserve balance account created under this section, any unexpended balance in the reserve account must be transferred to the fund or account from which money in the account was originally transferred. If money was transferred from multiple funds or accounts, a pro rata share of the unexpended balance must be transferred to each of them proportionate to the amount originally transferred from that fund or account.

Refer to AOS Bulletin 2007-002 for additional information regarding the authority for townships to create reserve balance accounts.

<b>In determining how the government ensures compliance, consider the following:</b>	<b>What control procedures address the compliance requirement?</b>	<b>W/P Ref.</b>
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

<sup>27</sup> Appendix IV-5 of the March 2013~~2014~~ Ohio Township Manual~~Handbook~~ lists all *Other Financing Sources*.

<sup>28</sup> For the purpose of setting aside money for the purchase of a capital asset, it may be easier and more convenient to create a separate capital projects fund under the provisions of Ohio Rev. Code § 5705.13.

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

If reserve balance accounts have been established:

- Determine through vouching, review of minutes, and inspection of accounting ledgers and authorizing legislation, whether reserve accounts were only established in the general fund, special fund used for operating purposes or appropriate internal service fund and for permitted purposes (budget stabilization, self-insurance program, or retrospective ratings program for worker's compensation).
- Recalculate reserve percentages and inspect worksheets and accounting ledgers to determine whether the amount reserved exceeded the 5 % cap (budget stabilization account). In the case of Townships or Counties see footnote 23.
- For self-insurance and worker's compensation reserve accounts, compare amounts reserved to estimates received from the entity's actuary.

If a "severance payout reserve" or "capital improvement reserve" fund has been established:

- Review minutes, ordinances and resolutions to determine whether the fund has been established by resolution or ordinance.
- If a capital improvement reserve fund has been established, review the authorizing legislation to determine whether the assets; amount required; accumulation period (not to exceed ten years); and source of funding have been identified.
- Select a representative number of disbursement transactions from the fund. Through vouching, determine whether the transactions were only for related activities as indicated above, and in accordance with the purpose stated in the authorizing legislation.
- Trace a representative number of transfers to the reserve fund and determine whether the transfers were from funds permitted to make the disbursements for which the reserve fund was established.
- Determine through inspection of worksheets, ledgers and other such documents, whether records reasonably provide for the return of accumulated resources, to the fund from which they were originally transferred or the fund intended to receive them (If records do not reasonably provide for the proper return of resources, this situation would generally result in a recommendation; a noncompliance citation should not be made).

If the reserve fund was rescinded or if the ten-year period has elapsed prior to entering into a contract (capital improvement reserve fund), determine through inspection of worksheets and accounting ledgers whether the accumulated resources were returned to the fund from which they were originally transferred or the fund intended to receive them.

If a township has established an additional reserve balance account(s), determine whether the necessary resolution, stating the purpose of the reserve account, has been adopted by the board of trustees.

- Review monies transferred to the new township reserve balance accounts from other township funds or accounts and determine whether those monies may lawfully be expended for the purpose for which the new reserve balance account was created.

- Determine whether the total amount of money credited to *all* of the reserve balance accounts established under Ohio Rev. Code § 5705.132 exceeded 5% of the total of the township's revenue from all sources for the preceding fiscal year and any unencumbered balances carried over to the current fiscal year from the preceding fiscal year.
- ~~Scan expenditures in the additional reserve accounts and~~ Determine whether reserve accounts were expended only used for the purpose for which the account(s) was established.
- Determine that none of the additional reserve balance accounts have existed for more than five years.
- Upon the expiration or rescission of a reserve balance account created under Ohio Rev. Code § 5705.132, determine whether any remaining unexpended balance in the reserve account was transferred to the fund or account from which money in the account was originally transferred. If not, consider a finding for adjustment.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**ADDITIONAL COUNTY REQUIREMENTS**

**1-9 Compliance Requirement:** Ohio Rev. Code § 5101.144 requires that each county deposit all funds its public children services agency receives, regardless of source, into a special fund in the county treasury known as the children services fund.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

During revenue tests, trace a representative number of children services agency receipts to the fund.

<p><b>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**BOARD OF EDUCATION (SCHOOLS)**

**1-10 Compliance Requirement:** Ohio Rev. Code § 3313.33 - **Board of Education** (schools) conveyances and contracts.

**Summary of Requirement:** The board president and treasurer shall execute any “Conveyances.” No contract is binding unless authorized at a regular or special board meeting. A “conveyance” is not a donation; it is a transfer *between two entities* with adequate consideration other than money (Ohio Rev. Code § 721.02).

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Trace board approval from the minutes to the contracts or from the contracts to the minutes.

Inspect “conveyances” for board president and treasurer signatures.

<p><b>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**1-11 Compliance Requirement:** Ohio Rev. Code Chapter 3318 - **School Districts** participating in classroom facilities assistance programs.

### Summary of the Program

#### Background:

Several programs provide financial assistance to construct or repair classroom facilities. The School Facilities Commission (Commission) administers these programs. The most common programs are the Classroom Facilities Assistance Program (CFAP), Expedited Local Partnership Program, and Urban Initiative Program (i.e., applies to the following six city school districts: Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo). Certain classroom assistance programs established by Ohio Rev. Code Chapter 3318 follow the basic guidelines of the CFAP.

#### Locally Funded Initiatives:

The Commission informed us that a school district board may elect to add to the scope of any project and separately fund a scope of work (“local initiative”), which involves improving all or part of a project the Commission funds. The school district board may request the Commission to approve the incorporation of design and construction of the local initiative into the overall project. Whenever a local initiative is interconnected with a project the commission funds, the district and the commission will execute a memorandum of understanding to specify the additional cost of the local initiative and the terms and conditions for accounting for the cost. *The district must account for the local initiative in a separate fund, NOT the project construction fund (USAS fund 010).*

The CFAP and related programs are discussed below.

#### CFAP Basics:

CFAP participation is based in part on the district’s relative wealth, the Commission’s determination of the district’s facility needs, and the time elapsed since prior CFAP participation.

Project commencement is contingent upon the district obtaining:

- The district’s share of project costs, funded by an additional bond levy, and /or certain local resources available for such purpose [Ohio Rev. Code §3318.084], or
- The proceeds of a property tax/income tax levy, or a combination of both [Ohio Rev. Code §3318.052], and
- The Board must levy an additional maintenance tax<sup>29</sup> of at least one-half mill [Ohio Rev. Code §3318.05 (B), 3318.06 (A)(2)(a) and (A)(3), and 3318.17], or

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<sup>29</sup> The original regulations required a ½ mill levy, all of which was remitted to the State to repay project funding received. Later regulations still required the levy (or other funding), but provided that all or a portion would be retained by the district, to be used for maintenance of project facilities. All such funding is referred to as “maintenance funding” in this OCS Section. Some districts have entered into supplemental agreements which subject the district to the amended regulations.

- the Board may elect, to satisfy its local maintenance requirement by earmarking from the proceeds of an existing permanent improvement tax levied under Ohio Rev. Code §5705.21, an amount equivalent to the amount of the additional tax described above or the District may elect to satisfy its local maintenance requirement by a combination of the half mill levy and the alternative funding source, or the district may elect to use a locally donated contribution under section 3318.084 of the Rev. Code. [Ohio Rev. Code § 3318.05 (B), and 3318.06 (A)(2)(b)]
- A district ~~commencing its project on or after the act's effective date~~ may deposit into its maintenance fund, annually for 23 years, an amount from other district resources equal to 1/2 mill of the district's tax valuation<sup>30</sup>, instead of levying the maintenance tax<sup>31</sup>. The district's board must pass a resolution petitioning the Ohio School Facilities Commission to approve the arrangement. (Ohio Rev. Code § 3318.05, 3318.051, and 3318.084)
  - The district treasurer must annually certify to the Commission and the Auditor of State that the amount required for the year has been transferred<sup>32</sup> into the maintenance fund.

In order to satisfy the transfer certification requirement to the Auditor of State, districts can electronically submit the copy of the Auditor of State's certification to [OSFC/OFCC@OhioAuditor.gov](mailto:OSFC/OFCC@OhioAuditor.gov) or carbon copy the Auditor of State regional offices on their certification to the Commission. See the Auditor of State website [www.ohioauditor.gov](http://www.ohioauditor.gov) (Contact Us/Locations and Contacts) for regional office contact information.

- The Auditor of State must "verify" the transfer as part of any audit of the district. If the Auditor of State finds that less than the required amount has been deposited, the Auditor must notify the district board in writing and require the board to deposit the necessary money within 90 days after the notice. If the district board fails to demonstrate to the Auditor's satisfaction that it has made the required deposit, the Auditor must notify the Ohio Department of Education. Upon that notice, the Ohio Department of Education must withhold 10% of the district's state operating funds for the current fiscal year, until the Auditor notifies the Ohio Department of Education that

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<sup>30</sup> Joint vocational school districts participating in a state facilities program, annually for 23 years, must deposit into a maintenance account an amount equal to 1.5% of the current insurance value of the acquired facilities (Ohio Rev. Code § 3318.43).

<sup>31</sup> If a district board determines that it can no longer continue making the annual transfers, the act allows a district board to rescind its decision, but only if the district's voters approve the levy of a maintenance tax. The levy must be in effect for the remainder of the 23-year maintenance period (23 years minus the number of years that the district made transfers) and must be for not less than ½ mill for each dollar of district valuation. The act prescribes the ballot language to be used. A district electing to make the transfers authorized by the act is not relieved from its obligation to make annual deposits into its general "capital and maintenance fund," which applies to all districts under continuing law.

<sup>32</sup> Districts electing to make the transfers, instead of levying the maintenance tax, may not receive the new state maintenance equalization payments. (*Beginning in fiscal year 2007, the Ohio Department of Education is required to pay an equalized subsidy to city, exempted village, and local school districts participating in state-assisted facilities programs and have tax valuations per pupil below the statewide average. The subsidy equalizes to the statewide average the per pupil amount each eligible district raises from its 1/2-mill maintenance levy.*) (Ohio Rev. Code § 3318.18)



the Auditor is satisfied that the board has made the required transfer (Ohio Rev. Code §3318.051(B)).

- NOTE: Auditors should consult with the Auditor of State’s Legal Division if noncompliance is identified. The Auditor of State Legal Division will prepare the written notification to the school district board and to the Ohio Department of Education, if necessary. IPA’s should notify the Auditor of State’s Center for Audit Excellence if noncompliance is identified. The Auditor of State Center for Audit Excellence will then consult with the Auditor of State Legal Division as appropriate.

Districts are to establish a project construction fund [Ohio Rev. Code § 3318.08] to account for project funding and expenditures (USAS fund 010),<sup>33</sup> and a project maintenance fund [Ohio Rev. Code § 3318.05] to account for maintenance funding and expenditures (USAS fund 034). ***Districts should not account for local funding initiatives in these funds. Rather, a separate fund should be established.***

The maintenance fund can only be used to maintain and repair completed facilities as identified in the approved maintenance plan, including preventative maintenance, periodic repairs, and the replacement of facility components. Routine janitorial and utility costs, equipment supplies and personnel costs associated with the day-to-day housekeeping and site upkeep are not allowable expenditures. No moneys other than costs associated with the development of the preventive maintenance plan may be expended out of fund 034 prior to the approval of the maintenance plan by the Commission. The construction manager is required to initiate the process of developing the plan at least six months prior to the completion of any facility for occupancy. [Legal criteria: The maintenance plan approved by the Commission, as evidenced by a signed Commission resolution]

#### **CFAP Written Agreement [Ohio Rev. Code §3318.08]:**

Prior to project commencement the Commission and school district enter into a written agreement (“Project Agreement”). The Project Agreement is the contract between the district and the Commission. There can be many attachments to the Project Agreement and amendments to the Project Agreement. Some of the common attachments include schedules of the alternative funding sources for both the local portion for construction and/or the maintenance levy, and a Memorandum of Understanding (MOU) which sets forth the specific terms and conditions of the Local Initiative. The agreement and the applicable attachments, in part, will provide for the following:

- Sale and issuance of bonds or bond anticipation notes for all or a portion of the district’s share of project costs (to be deposited into the district’s project construction fund (USAS 010), and the transfer of approved local resources (if any) to the project construction fund. (***Note: the district’s local share of the project costs is not the same as a “locally funded initiative”. Locally funded initiatives should be accounted for in separate funds, not Fund 010.***)
- The funding source for project maintenance and the conditions, if any, under which a portion of maintenance funding will be paid to the State. Repaying the State is no longer required. As noted above, the money a one-half mill maintenance levy or an alternative funding source generates must be deposited into fund 034 and can only be used to maintain and repair facilities, including preventative maintenance, periodic repairs, and replacing facility components.

<sup>33</sup> Auditor of State Bulletins 99-004 and 2001-007 include USAS accounting and legal guidance for the CFAP program. The accounting guidance still applies, but auditors should not rely on the legal guidance of those bulletins because some of it is outdated.

- Authorization to advertise for, receive, and award construction bids for the project, subject to Commission approval.
- Disbursement of moneys from the district's project construction fund after receiving Commission approval. Payments from the construction fund are restricted to: 1) professional design and administration services, 2) payments to contractors who have performed work, 3) purchases related to the Project, and 4) any transactions authorized necessary or appropriate for establishing and administering investment accounts. Occasionally, districts will receive approval from the Commission for reimbursement of items that should have been project costs. If this is the case, the District should have an approval letter on file from the Commission that should be presented to the auditor to substantiate the expenditure. All payments from fund 010 should evidence approval by the district treasurer or another board designee and by the Commission, as delegated to the construction manager. ***Locally Funded Initiatives should not be paid from fund 010, but from another fund identified by the district.***
- The Commission will pay the construction manager from the State's share of the project. (These payments should be recorded in fund 010 as receipts of the State's share and as construction expenditures. When establishing budgets for the project, these amounts should be included in estimated receipts and appropriations.)
- Disposition of any balance left in the project construction fund after completion of the project:
  - Regarding investment earnings attributable to the school's own contributions to the project, the school should either: retain them in its project construction fund for future projects, transfer them to its project maintenance fund,<sup>34</sup> or transfer them to its permanent improvement fund. [Ohio Rev. Code § 3318.12(C)(1)]
  - The school should transfer investment earnings attributable to the state's contribution to the School Facilities Commission [Ohio Rev. Code § 3318.12(C)(2)]
  - Any other surplus remaining in the school district's project construction fund after the project's completion shall be transferred to the commission and the school district board in proportion to their respective contributions to the fund. [Ohio Rev. Code § 3318.12(C)(3)]

Note: There are exceptions to some of these general requirements. Auditors should review the terms of the district's project agreement, and any attachments or amendments to the agreement, to determine requirements specific to the project.

#### **Related Programs:**

Other Ohio Revised. Code Chapter 3318 programs include the **School Building Assistance Expedited Local Partnership Program** [Ohio Rev. Code § 3318.36 and 3318.362] and the **Exceptional Needs School Facilities Assistance Program** [Ohio Rev. Code § 3318.37]. The Expedited program allows school districts to choose to fund a distinct portion of their Facilities Master Plan through local monies prior to the time their state funding becomes available. Once a district enters CFAP they receive credit against their required local contribution for the work completed under the Expedited program. None of the CFAP specific requirements related to the tracking and disposing of interest earnings apply to school districts participating in the Expedited Local Partnership Program. Since it is not a co-funded program, moneys related to that program should be accounted for in a fund other than fund 010. The Exceptional

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<sup>34</sup> These monies shall be used solely for maintaining the classroom facilities included in the project.

Needs program provides assistance to lower wealth districts with an exceptional need for immediate classroom facilities assistance, as determined by the Commission. The program is specifically designed for replacement as opposed to expansion or renovation.

With the exception of the Expedited program identified above, these programs follow the basic CFAP requirements discussed above, though there are differences. Districts will enter into agreements with the Commission. If the district participates in these or other Ohio Rev. Code Chapter 3318 facility projects, auditors should review the terms of the agreement and identify those requirements which may be material. When making that determination, auditors should consider the requirements and procedures addressed in this Ohio Compliance Supplement Section for the CFAP program.

Note: Community schools may not participate in these programs, except: per Ohio Rev. Code § 3318.50, a community school may obtain a classroom facilities loan guarantee from the State, for up to 15 years.

**Interfund Activity:*****During the project***

Ohio Rev. Code § 3318.12 permits a school district board, by resolution, to use all or part of the interest attributable to the district's share of moneys in the project construction fund to pay the cost of local initiatives that are not included in the state-assisted project, but that are related to it. If a district board chooses to use some or all of the interest attributable to its share of the fund for local initiatives and, later, the cost of its state-assisted project exceeds the amount in the fund, the district must re-pay all of the interest used for those initiatives before further state funds will be released for the project.

***After the project is completed***

Ohio Rev. Code § 3318.12(B)(2) permits a school district board at its option, by resolution, to transfer the interest attributable to its local share in the project construction fund to its permanent improvement fund (where presumably it could be spent on any permanent improvement) or to leave that interest in the project construction fund to pay the cost of future projects. A district board also may choose to transfer the interest to the district's maintenance fund. In either case, interest attributable to the state's share of the project construction fund must be returned to the state.

**OSFC/OFCC Agreed-Upon Procedures (AUP) Engagements:**

OSFC/OFCC conducts AUP engagements on select school districts that are in the construction phase. All school districts participating in classroom facilities programs will receive an AUP engagement at least once during a project's lifetime. The firms of Kennedy Cottrell Richards and Julian & Grube, Inc. conduct these engagements and are in good standing with the Auditor of State's Office.

The focus of the AUP engagements is accountability and compliance with the terms of the OSFC/OFCC Project Agreement (including any amendments thereto) and Ohio Rev. Code Chapter 3318. The firms test the following areas, as applicable:

- deposit of project funds (both State and Local)
- spending of project funds
- interest earnings and allocation to the appropriate funds
- escrow accounting
- the closeout process

OSFC/OFCC forwards the results of the AUP engagements to the Auditor of State, who then distributes the reports to regional chief auditors and independent public accounting firms. Pursuant to *Government Auditing Standards* paragraph 4.05, "auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that

could have a material effect on the financial statements or other financial data significant to the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.”

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note: In assessing the risk of noncompliance, auditors should consider whether an AUP report that covered at least six months of the period under audit is available from OSFC/OFCC. If so, auditors should evaluate the results of the AUP to assess the risk of noncompliance.**

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

**Agreed-Upon Procedures:**

Per GAGAS 4.05, Inquire whether OSFC/OFCC conducted an AUP engagement over the district’s construction project. If so, obtain a copy of the AUP report, place it in the permanent file, and perform the following:

- Determine what period was covered by the AUP engagement procedures.
- Determine the extent of testing performed over the district’s construction activity. Auditors *may* rely on the AUP engagement to reduce the scope and extent of the audit steps enumerated below. *However, auditors should review the reported procedures to determine whether they apply: (1) only once during a project’s lifetime, or (2) if they are ongoing and should be tested annually. For example, we would expect tests of allowability of expenditures to be tested annually during the construction phase. However, the establishment of the appropriate project funds/special cost centers would only be applicable once, generally at the onset of the project. Therefore, testing of type (1) requirements (i.e., applicable one-time only) does not need to be repeated each year. Auditors may refer to prior year testing or an existing AUP engagement, regardless of the period covered, to satisfy these requirements. However, an AUP engagement may only be used to reduce testing of the steps below for type (2) requirements (i.e., applicable on an ongoing basis*

*each year) if the period covered by the AUP engagement included at least six months of the current period under audit. Auditors should carefully read the AUP procedures to ensure they obtain an appropriate understanding of the testing procedures performed when making this assessment.*

- Determine whether any significant findings or recommendations requiring corrective action or follow up were included in the results of the AUP report. If so, determine whether the district has corrected the noncompliance or can document satisfactory progress towards addressing the noncompliance. Auditors should *annually* evaluate the significance of uncorrected items for inclusion in the current audit report.
  - If the school is not adhering to agreed upon timetables for corrective action, etc., auditors should consider reporting noncompliance. Noncompliance findings should include the following: (1) a reference to the existing noncompliance such as, "... in a report dated XX, AOS or an accounting firm reported noncompliance with ORC 3318.YY", and (2) a description of the status of the noncompliance as of the date of the current audit report.

Review the project agreement between the district and Commission. Considering the requirements specific to the project, perform the following procedures (document specific requirements relevant to the following tests):

#### **Project Funding:**

Scan the accounting records to determine if the proper activities are being recorded in the project activities fund (USAS 010). Determine if the District is accounting for the following four revenue streams **separately**: (1) Local Revenue, (2) Interest on Local Funds, (3) State Revenue – aka "drawdowns", and (4) Interest on State Revenue.

Determine if the District deposited the local share funds required by the Project Agreement into fund 010 for both the original contribution and any amendments.

Select contracts and related contract expenditures and determine through inspection, vouching, or other such means that contracts were awarded using competitive bidding procedures.

Vouch a few transactions from fund 010 for allowable cost as defined in the agreements. We are not opining on this program, so we do not require a high level of assurance. Testing high dollar transactions and scanning other selected transactions should suffice. Review the supporting documentation to determine if the expenditure was:

- a. allowed under the terms of the Project Agreement;
- b. if it was approved by the district treasurer or another board designee and the construction manager prior to payment;
- c. if it excludes any costs for a locally funded initiative;
- d. if the amount paid agrees with the invoice and
- e. if it is recorded in the correct amount in the correct fund.
- f. If the District did not properly segregate transactions into a project construction fund (i.e., did not establish fund 010), report noncompliance accordingly. Auditors should also consider reporting a finding for adjustment. See the OCS Implementation Guide for guidelines pertaining to Findings for Adjustments.

Scan interfund activity in fund 010. Determine whether material transfers or advances were properly approved and/or allowable under Ohio Rev. Code. If an advance is repaid out of fund 010 request the District provide the approval letter from the Commission which authorized the reimbursement.

**Maintenance Funding:**

~~Inquire with the client or review capital asset records to determine if the District ever had an OSFC/OFCC project. If so determine whether or not the project maintenance fund (USAS fund 034) has received the required ½ mill and expenditures were in accordance with the approved maintenance plan for the entire 23 years. Note: If they are using the alternate maintenance obligation see the section below.~~

~~Review accounting records and the Project Agreement and determine if the proper amount of maintenance funding was posted to the project maintenance fund (USAS fund 034).~~

Vouch a few disbursement transactions from fund 034. We are not opining on this program, so we do not require a high level of assurance. Testing high dollar transactions and scanning other selected transactions should suffice. Determine whether expenditures were only for maintenance of the funded project facilities in accordance with the district's approved maintenance plan. (If the District did not segregate transactions related to project maintenance (i.e. did not establish fund 034), report noncompliance accordingly. As noted above, the only allowable expenditures out of fund 034 prior to the completion of the project are for the costs associated with the development of the maintenance plan.

**Locally Funded Initiative:**

If applicable, review accounting records and related documents and determine if the district established a separate fund, or special cost center in a fund other than Fund 010, to track receipts and expenditures related to a locally funded initiative.

Vouch selected disbursement transactions from the LFI fund/special cost center. We are not opining on this program, so we do not require a high level of assurance. Testing high dollar transactions and scanning other selected transactions should suffice. Determine whether expenditures were: (1) approved by the district treasurer or another board designee and construction manager prior to payment, (2) in agreement with the vendor invoice, and (3) in compliance with the district's approved Memorandum of Understanding with the OSFC/OFCC. If the district did not segregate transactions related to LFI (i.e. did not establish a separate fund or a separate special cost center in a fund other than Fund 010), report noncompliance accordingly.

**Alternate Maintenance Obligation:**

Determine whether the school district has elected to use the new alternative mechanism for meeting its maintenance obligation. If so, obtain the district's annual certification<sup>35</sup> to the Commission and determine if the school district carbon copied the Auditor of State regional office that the amount required for the year has been transferred into the maintenance fund.

IPA's perform agreed-upon procedures reports to serve as certification. Obtain a copy of this AUP report from the district and review for noncompliance. If the school district has deposited less than the required amount, determine whether AOS sent the required written notification to the district board mandating the necessary deposit within 90 days of the notice.

**Interfund Activity:**


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<sup>35</sup> The following is sample annual certificate language: "The undersigned Treasurer of the Board of Education of the XYZ District, YYY County, Ohio hereby certifies that a resolution was duly passed by the Board of Education of said School District on MM/DD/YYYY to transfer \$xx,xxx from the General Fund to the OSFC/OFCC Facility Maintenance Special Revenue Fund.

Determine whether the district transferred interest out of the Project Construction Fund (Fund 010) during the audit period. If so, determine whether:

- the district board adopted a resolution approving the transfer
- the monies transferred represented only interest attributable to the district’s local share of the project
- the monies were transferred to the appropriate funds and accounts. *(Note: the OSFC/OFCC recommends using the Transfer-Out appropriation and Transfer-In receipt accounts to record this activity).*

**Surplus Balance:**

If a surplus remained after project completion, inspect the district’s records supporting the distribution of the surplus. Determine whether the proper amounts were returned to the Commission and transferred to the district’s respective funds.

<p><b>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**DEBT**  
**ENTITIES OTHER THAN COMMUNITY SCHOOLS**

**1-12 Compliance Requirement:** Ohio Const. Art. XII, Section 11; Ohio Const. Art. XVIII, Section 12 Ohio Rev. Code § 133.10, 133.22 133.24, 321.34, 5705.03, 5705.05, 5705.09 and 5705.10; 1981 Op. Atty Gen. No. 81-035 – **Issuing or Retiring Bonds and Notes.**

**Summary of Requirements:**

*Common Types of Debt*

**BACKGROUND INFORMATION:** Per Ohio Rev. Code § 133.01(Q), *general obligation* securities are those collateralized by a pledge of taxing authority, up to the subdivision’s available tax limit (sometimes described as a taxing authority’s “full faith, credit and taxing authority.”)

The following are examples of securities that are **not** general obligations:

Ohio Rev. Code § 133.01(LL) defines *self-supporting securities* as securities, or portions of securities where the fiscal officer estimates that revenue sources, excluding taxes, are sufficient to pay for operating costs plus debt service. These are securities collateralized by pledged revenue,<sup>36</sup> without a pledge of taxes. Enterprise utility operations often issue self-supporting securities. Ohio Rev. Code § 133.01(MM) authorizes various subdivisions to issue self-supporting securities; such as municipalities, townships, counties, school districts, and certain other districts. (See the statute for a complete list.) Ohio Rev. Code § 133.01(MM) does not list community schools.

Ohio Rev. Code § 133.08 (D) defines *revenue* securities as those a county issues, collateralized only by pledged revenue and which are not secured by a county’s full faith, credit and taxing authority.

Ohio Const. Art. XVIII, Section 12, authorizes a municipality to issue bonds collateralized by pledged revenues or mortgages to acquire, construct, or extend public utilities. These bonds do not impose any liability on the municipality, except the creditor’s right to the pledged revenue and / or mortgage. That is, this debt is not a general obligation.

*Issuance of Securities*

- Ohio Const. Art. XII, Section 11 states "No bonded indebtedness of the state, or any political subdivision thereof, shall be incurred or renewed unless, in the legislation under which such indebtedness is incurred or renewed, provision is made for levying and collecting annually by taxation an amount sufficient to pay the interest on said bonds, and to provide a sinking fund for their final redemption at maturity."
- Ohio Rev. Code § 5705.03 provides that the taxing authority of each subdivision must levy sufficient taxes annually as are necessary to pay the interest and sinking fund on and retire at maturity the bonds, notes and certificates of indebtedness of such subdivision subject to the limitations of applicable statutes.
- Ohio Rev. Code § 133.23 describes the legislation required to authorize new securities. Per Ohio Rev. Code § 133.23(C), Legislation must identify the source(s) of repaying the bonds, which may be **any** moneys required by law to be used, or lawfully available, for the purpose authorized. If the bonds are

<sup>36</sup> *Pledged revenue* is revenue the debt legislation or covenant provisions pledged as collateral to the debt owners.



general obligations, or a property tax otherwise must be levied for the debt service, the legislation shall provide for levying a property tax sufficient to pay the bonds' debt charges; but the tax amount levied or collected in any year may be reduced by the amount to be available from special assessments,<sup>37</sup> revenues and surplus funds of public utilities, any surplus in the funds from which such bonds are to be retired, or other moneys specifically assigned by law or by legislation of the taxing authority for payment of such debt charges.

We interpret Ohio Rev. Code § 133.23(C) as follows:

- Revenue (tax or otherwise) pledged to repay debt must be used for debt service unless the debt is repaid from other sources.
- A government can use unrestricted money or restricted money for purposes consistent with the restriction to pay debt service. For example, a government might use restricted grant revenue<sup>38</sup> to pay revenue anticipation note debt service, if the debt proceeds were spent for allowable grant purposes, even if the debt legislation pledges taxes.
- Therefore, if these bonds are a general obligation, a government must *authorize* a levy, but need not levy the tax if it can use other resources to pay the debt service.

#### ***Debt Issuance for Board of Trustees for Fire Districts***

Pursuant to Ohio Rev. Code Chapter 133, Ohio Rev. Code § 505.401 provides additional borrowing authority for the board of trustees for fire districts organized under Ohio Rev. Code § 505.37(C). This section allows the fire district's board of trustees to issue bonds to acquire fire-fighting equipment, buildings and sites for the district or to construct or improve a building to house fire equipment.

#### ***Retirement of Securities***

- Ohio Rev. Code § 5705.09(C) requires each subdivision to establish a bond retirement fund into which it must pay sufficient revenues to retire serial bonds, notes and certificates of indebtedness at maturity.
- Ohio Rev. Code § 5705.10 provides that all revenue derived from levies for debt charges on bonds, notes, or certificates of indebtedness must be paid into a [debt service] fund for that purpose.
- Ohio Rev. Code § 133.10(E) further provides that revenue anticipated (i.e. property taxes pledged to pay tax anticipation notes) may be appropriated for purposes other than paying debt charges only after deducting an amount sufficient to pay the debt. The amount (of anticipated revenues) to be applied to debt charges must be set aside in an account in the bond retirement fund. Ohio Rev. Code § 133.10(E) applies to certain other types of securities, for example in Ohio Rev. Code sections:
  - Ohio Rev. Code § 133.13: Certain special assessments
  - Ohio Rev. Code § 133.17: Securities anticipating special assessments
  - Ohio Rev. Code § 133.32: All Ohio Rev. Code Chapter 133 securities
  - Conservancy district special assessments RAN

<sup>37</sup> FYI: Special assessment anticipation notes issued per Ohio Rev. Code § 133.17 are collateralized by a pledge of special assessments, *and* as general obligations. However, notes issued per Ohio Rev. Code § 133.13, anticipating special assessments collected in one installment are collateralized only by the assessments and are *not* general obligations.

<sup>38</sup> Unless the grant regulations prohibit debt payments. For example, ~~Circular A-87 (now codified in 2 CFR 225)~~ would generally permit using Federal grants to pay debt related to assets used in Federal programs, per Attachment B, item 23b. On December 26, 2013, OMB issued the final OMB Super Circular, implementing changes to uniform administration requirements, cost principles, and audit requirements for federal awards.

*Issuance of Notes*

- Ohio Rev. Code § 133.22 requires that when a subdivision issues notes, its financial officer must notify the county auditor that such notes have been sold. Per Ohio Rev. Code §321.34(B), when a county auditor *advances* tax revenue to a subdivision, the county auditor must allocate the advance between the subdivision's general and debt service fund, to provide sufficient tax revenue to pay the subdivision's outstanding G.O. indebtedness.
- Ohio Rev. Code § 505.262(A) authorizes a board of township trustees to issue notes of the township to finance installment payment purchases of equipment, buildings, and sites for any lawful township purpose. All notes issues shall be pursuant to Ohio Rev. Code § 133.20. Furthermore, The Attorney General opined that Ohio Rev. Code § 505.262(A) does not grant explicitly or implicitly the authority of the township to grant a security interest in the property purchased by the installment contract. [1996 Op. Atty Gen. No. 1996-048]<sup>39</sup>

*Special Features*

- FYI: Ohio Rev. Code Chapter 133 securities may include the following features:
  - Floating interest rates [Ohio Rev. Code § 133.26(A)]
  - Early redemption or call provisions [Ohio Rev. Code § 133.26(B)]
- Legislation authorizing a debt issuance may contain restrictions on the source of payment for debt charges.

*Retiring Debt from Funds Other than a Debt Retirement Fund*

- ***Absent a specific requirement***, debt may be paid from any unrestricted monies held, segregated from restricted monies, in a fund which was established for a purpose not inconsistent with paying such debt. When evaluating compliance with the requirements in this section, place emphasis on the source of monies used to repay debt. When a subdivision pays debt from a fund other than a debt retirement fund, consider the following:
  - Ohio Rev. Code § 5705.10 (I) provides that money paid into a fund shall be used only for the purpose for which such fund was established. Therefore, money in a fund may be used to pay debt charges provided the payment of such debt charges is consistent with the purpose for which the fund was established;
  - With regard to tax anticipation notes, Ohio Rev. Code § 133.24(D) provides that, except for ***capitalized interest***<sup>40</sup>, debt charges on tax anticipation notes are payable only from the revenue collected by the tax levy anticipated.

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<sup>39</sup> For example, townships cannot take out a simple bank loan to purchase a truck for road purposes since “bank loans” are not a statutorily permitted form of debt for townships. However, townships do have authority to issue securities under Ohio Rev. Code Chapter 133 (e.g., anticipatory debt usually secured for infrastructure). However, Ohio Rev. Code § 505.262(A) and 1996 Op. Atty Gen. No. 96-048 provide specific authority for townships to issue Chapter 133 securities for the purposes this paragraph describes.

<sup>40</sup> Ohio Rev. Code § 133.01(E) defines *capitalized interest* as interest received with the proceeds of a security. For example, this would include interest payable accruing between the security's issuance date and the date the security was sold. Since the government must pay this interest to the security owners, the government generally must set

- Ohio Rev. Code § 5705.05 prohibits using taxes levied for current expenses to pay debt charges.
- Ohio Rev. Code § 5531.10(C) (issuing obligations for state infrastructure projects) provides that the holders or owners of such obligations shall have no right to have moneys raised by taxation by the state of Ohio obligated or pledged, and moneys so raised shall not be obligated or pledged, for the payment of bond service charges.<sup>41</sup>
  - Additionally, the section specifically permits townships receiving distributions from the Gasoline Excise Tax Fund in the state treasury to use that money to pay debt service on State Infrastructure Bank (SIB) obligations. (Ohio Rev. Code § 5531.10 and 5735.27)

- 1981 Op. Atty Gen. No. 81-035 states:

Certain moneys paid into the general fund which are not derived from a general levy for current expenses are placed in the general fund precisely because their use is not restricted. (See Ohio Rev. Code §5705.10). Such monies may be used to pay debt charges provided that they have not been commingled with general fund monies which may not be used for debt payment. Where otherwise unrestricted monies have been paid into the general fund and have been commingled with restricted monies to the extent that the particular source from which the monies originated cannot be distinguished, such monies may be used to pay debt charges only after they have been transferred to an appropriate fund pursuant to Ohio Rev. Code § 5705.14.

- Ohio Rev. Code § 505.262(A) authorizes a board of township trustees to issue notes of the township to finance installment payment purchases of equipment, buildings, and sites for any lawful township purpose. All notes issues shall be pursuant to Ohio Rev. Code § 133.20. Furthermore, The Attorney General opined that Ohio Rev. Code § 505.262(A) does not grant explicitly or implicitly the authority of the township to grant a security interest in the property purchased by the installment contract. [1996 Op. Atty Gen. No. 1996-048]

- The Expedited Local Partnership Program provides a way for school districts to start approved school building projects using local funds while they wait for state funding under the “main” Classroom Facilities Assistance Program (CFAP) program. Once a district is eligible for CFAP, it may apply this advance expenditure of local resources toward its portion of the cost of its total CFAP project. If a district has spent more than its share of its CFAP project while proceeding under the Expedited Program, the School Facilities Commission must reimburse the district the amount of the over expenditure. Ohio Rev. Code § 3318.36(E)(2) provides that school districts may first deposit reimbursed money into either the district's general fund or a permanent improvement fund to replace local resources the district withdrew from those funds for constructing classroom facilities included in the district's CFAP project. The remaining reimbursement monies must be used to pay debt service on classroom facilities constructed under the Expedited Program. (Ohio Rev. Code § 3318.36(E)(2))

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aside this interest for the first debt service payment and should not use it for the purpose for which the principal was issued. [EX133.16] Do not confuse this with *capitalized interest discussed in FASB 34 & 62 or GASB 34, 37, etc.*

<sup>41</sup> Ohio Rev. Code § 5531.10(C) is not a requirement to use a Debt Service Fund. Rather, this section describes statutory exceptions to the general rule that monies not otherwise restricted could be used to pay debt where the purposes of both were not inconsistent. In other words, governments with SIB loans cannot obligate or pledge State-levied taxes to pay bond service charges (except townships receiving distributions from the Gasoline Excise Tax Fund in the state treasury to use that money to pay debt service on State Infrastructure Bank (SIB) obligations).

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Bond Counsel/Lender Involvement</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures – Compliance (Substantive) Tests**

For securities issued during the audit period, inspect the debt legislation and determine under which Rev. Code statute the debt was issued. If that section is not listed in this Ohio Compliance Supplement Chapter, read the specific statute and amend the testing steps to include tests to determine:

- The legality of the source of repayment and collateral. (We can normally rely on documents (such as an offering statement) bond counsel or the underwriter prepared describing the source of repayment and collateral, if they were involved with a debt issue. We should inspect their conclusions for reasonableness and summarize in the permanent file.)
  - Whether the government properly segregated any revenue pledged for debt service or capitalized interest (i.e. interest accruing between the security’s issuance date and the date the security was sold) and used that revenue for debt service. This will often require establishing a debt service fund.
  - Whether the government used the proceeds for the purposes authorized.
  - If the debt is still outstanding at the end of the audit period, include copies or summaries of the information related to the three bullet points above in the permanent file.
  - If the debt includes features such as floating interest rates or early redemption or call provisions, determine if enabling legislation and the Ohio Rev. Code authorize those features. (For example, Ohio Rev. Code § 133.22(D) describes features BAN can include.)

Inspect the county tax settlements and trace revenues to the funds indicated. If amounts from tax levies for bond retirement are being placed into funds other than bond retirement funds, inspect documentation that the government deducted an amount sufficient to pay the debt charges. (Ohio Rev. Code § 5705.10(B))

By reading the government’s financial statements or inspecting its ledgers, determine where debt is paid from. If other than bond retirement funds, determine that:

- Debt paid from a restricted fund was paid from revenue which could be used for the same purpose for which the debt proceeds were spent [Ohio Rev. Code § 5705.10 or 133.24(D)];
- Restrictions, if any, in the debt-authorizing legislation were followed;
- Revenue derived from a general levy for current expenses is not used to pay debt charges [Ohio Rev. Code § 5705.05]; or
- Monies used to pay debt from the general fund have not been commingled with general fund monies which may not be used for debt payment [1981 Op. Atty. Gen. No. 81-035].

Note: Where bond counsel was involved with debt issues we are testing, we can usually rely on documents they have prepared or opined on, as evidence that legislation authorizing the securities complies with statute. However, bond counsel would not “audit” the government’s *subsequent* compliance with requirements. For example, we would not expect bond counsel to determine how the government accounted for debt proceeds or whether the proceeds were spent for authorized purposes.

***Board of Trustees for Fire Districts***

By reading the minutes, inspecting bond ledgers or other documents, or by inquiry, determine if the fire district used this type of borrowing.

If so,

- trace the bond issuance to the budget;
- inspect the resolution authorizing the bond issuance;
- determine whether the issuance is in accordance with Ohio Rev. Code Chapter 133 requirements; and
- determine whether the proceeds were used to acquire fire-fighting equipment, buildings or sites for the district or for the purpose of constructing or improving a building to house fire equipment.

<p><b>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**1-13 Compliance Requirement:** Ohio Rev. Code § 133.10, 133.22 and 133.24 – Bond, Tax and Revenue Anticipation Notes (BAN, TAN and RAN).

**Summary of Requirements:** Per Appendix C-1 in the OCS Implementation Guide, several Ohio Rev. Code sections authorize TAN, RAN or BAN. Short-term TAN or RAN are generally subject to (1) below.<sup>42</sup> Long-term TAN are *generally* subject to (2) below. Significant requirements related to BAN are described at the end of this step.

- 1) **Short-term** notes anticipating *current* revenues, most often current tax levies: A government cannot issue these notes for more than a defined percentage of the current-year's estimated revenue (for example, ½ the current annual estimated revenue from utility charges or grants [Ohio Rev. Code § 133.10(B)], or approximately ½ of the next tax settlement, [Ohio Rev. Code § 133.10(A)]). These notes normally mature within six months, or the end of the fiscal year, whichever occurs first. Most Ohio Rev. Code sections authorizing these notes require them to comply with Ohio Rev. Code § 133.10. The remainder of this step refers to these notes as Ohio Rev. Code § 133.10 *short-term notes*.
- 2) **Long-term** notes anticipating *future tax* revenues, from voted tax levies, usually of a limited life: A government cannot issue these notes for more than the amount the levy will generate over its life, or a portion of its life. These notes mature over the life of the levy or a shorter period Ohio Rev. Code specifies, such as 5 or 10 years. Most Ohio Rev. Code sections authorizing these notes require them to comply with Ohio Rev. Code § 133.24. The remainder of this step refers to these notes as Ohio Rev. Code § 133.24 *long-term notes*.

### **RC 133.10 short-term TAN or RAN**

#### **TAN:**

- TAN must mature no later than the last day of the sixth month after the issue date, and in no case may they mature after the end of the fiscal year. The aggregate amount outstanding cannot exceed ½ of the amount anticipated for the next six months (typically the next settlement minus advances). [Ohio Rev. Code § 133.10(A)]
- Ohio Rev. Code § 133.10(C) amends 133.10(A) above for counties, municipalities, townships and school districts. If one of these entities issues TANs under Ohio Rev. Code § 133.10(C), these TANs need not mature until the end of the year. (That is, they are not restricted to a six-month maturity.)
- Notes a school district issues anticipating a delayed property tax settlement may be for up to 90% of the amount estimated to be received by that settlement (other than taxes to be received for paying debt charges) minus advances, and may mature as late as the August 31 after the June 30 fiscal year end. [Ohio Rev. Code § 133.10(D)]

#### **RAN:**

- The notes issued cannot exceed ½ of the amount of the projected revenues remaining to be received during the fiscal year, minus advances and prior collections, as estimated by the fiscal officer. [Ohio Rev. Code § 133.10(B)]

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<sup>42</sup> The references to *long-term* and *short-term* above refer to the legal requirements, not the classification of this debt under GAAP. Auditors should refer to GASB Codification B50 and GFOA General Purpose Government CAFR checklist for guidance on GAAP debt classifications.

- Notes issued anticipating current revenues in and for any fiscal year from any source or combination of sources, including distributions of any federal or state moneys, other than the proceeds of property taxes shall mature not later than the last day of the fiscal year for which the revenues are anticipated. [Ohio Rev. Code §133.10(E)(2)]

#### **All Ohio Rev. Code §133.10 short-term TAN or RAN**

- Pledged revenue (tax or otherwise) collected to retire these notes is considered appropriated for debt charges and financing costs. The government can appropriate this revenue for other purposes only after deducting sufficient amounts to pay debt service. The government must deposit pledged revenue sufficient to pay the debt in an account in a debt service fund. [Ohio Rev. Code § 133.10(E)(1)]
- These notes cannot be issued prior to the first day of the fiscal year. [Ohio Rev. Code § 133.10(E)(2)] (The only exception is that a board of education of a school district may issue notes as early as 10 days before the first day of the fiscal year (i.e., by June 21), provided that the proceeds of the notes can neither be spent nor considered available for appropriation prior to the first day of the fiscal year [i.e., July 1]). [Ohio Rev. Code § 133.10(H)]
- The government can spend note proceeds only for the purposes for which the related revenue can be spent. [Ohio Rev. Code § 133.10(E)(3)] For example, if a government issues RAN, anticipating Federal grant proceeds, the government can spend the note proceeds only for purposes the Federal grant permits.

#### **Ohio Rev. Code § 133.24 long- term TAN**

- The aggregate amount of principal outstanding may not exceed the anticipated levy proceeds provided in the applicable law by a statement of percentage or by a limitation on the amount of annual maturities. These TAN must mature by December 31 of the year authorized by statute, or by December 31 of the last year of the levy, whichever is earlier. [Ohio Rev. Code § 133.24(B)] Therefore, the duration of these notes should match the levy's life. (Unless another Ohio Revised Code section specifies a shorter period. See the Appendix C-1 in the OCS Implementation Guide for examples.) The estimated annual debt service should approximate the annual levy proceeds.
- Debt service is payable only from the levy proceeds. (Except the government should use capitalized interest collected with the debt proceeds to pay capitalized interest due with the first debt service payment.) The levy proceeds are deemed appropriated for debt service, and must be deposited into an account in the debt service fund. (The interest payable from capitalized interest should be paid with capitalized interest.) [Ohio Rev. Code § 133.24(D)]

--Any amount so deposited and not needed for the purpose in the particular fiscal year may, without compliance with any other law or approval by any other agency, be transferred to the special fund established for the proceeds of the tax levy [Ohio Rev. Code § 133.24(D)] (such as a capital projects fund, if the tax was levied for both debt service and for a specific capital project.)

#### **Requirements applicable to BAN**

- Per Ohio Rev. Code § 133.22, the legislative body must pass legislation authorizing:
  - The purpose for (eventually) issuing the bonds (which is limited to one purpose) [(A)(1)(a)]
  - The maximum amount of BAN, which cannot exceed the bond amount [(A)(2)(a)]
  - The maximum maturity, which cannot exceed (C). (See 133.22(C) below).
  - If the bonds are eventually payable from a property tax, the legislation provides for the levy of property taxes while the BAN are outstanding;

- (Note: We can normally rely on bond counsel for assuring compliance with the following provisions. This requirement is listed as background information for you.) Per §133.22(C), BAN issued with a latest maturity of less than two hundred forty months may be renewed for up to two-hundred-forty months.
  - Per (C)(2), five years after issuing the original BAN, a portion of the principal shall be paid annually, in amounts at least equal to, and payable not later than the payment dates of, the principal that would have been paid if the government issued bonds at the expiration of the initial five-year period.
  - Per (C)(3), the latest maturity of BAN may not exceed the maximum maturity of the bonds anticipated plus five years. (Bond maturities can range from 5 to 50 years, per Ohio Rev. Code § 133.20.)
  - Note: There are exceptions to these general rules, but they are too complex to summarize here. (Refer to Ohio Rev. Code § 133.22(C) for exceptions.)
  
- (These features are listed for your information.) Per §133.22(D), BAN may include the following features:
  - Put options (D)(6)
  - Issue commercial paper in lieu of BAN (D)(7)
  - Floating interest rates (D)(8)
  - Interest rate swaps (D)(9)(b)

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Bond Counsel/Lender Involvement</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

For notes issued during the audit period, inspect the debt legislation and determine under which Rev. Code statute the debt was issued. If that section is not listed in this Ohio Compliance Supplement Chapter (including Appendix C-1 of the OCS Implementation Guide), read the specific statute and amend the testing steps to include tests for the 5 debt requirements below. If a note is outstanding at the end of the audit period, include copies or a summary of documentation addressing the 5 compliance tests below in the permanent file.

Determine whether:



1. Note proceeds did not exceed Ohio Rev. Code limits, typically limited by the related revenue estimate (RAN or TAN) or bond proceed (BAN) estimates. (We can normally rely on the work of bond counsel or the underwriter, if they were involved with a debt issue. We should inspect their conclusions for reasonableness and summarize for the permanent file.)
2. Notes did not exceed limitations on the time to maturity. (*Usually*, notes issued for operating expenses must mature in one year. Notes used for capital improvements have longer maturities. BAN can mature up to the life of the eventual bonds.) (We can normally rely on the work of bond counsel or the underwriter, if they were involved with a debt issue. We should inspect their conclusions for reasonableness and summarize for the permanent file.)
3. The government repaid the debt with the pledged or other legal revenue (RAN and TAN), or refinanced BAN according to the BAN legislation.
4. The government properly segregated any revenue pledged for debt service and used that revenue for debt service.
5. The government used the note proceeds for the purposes authorized.

**Audit implications (adequacy of the system and controls, and the direct and material effects of Non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-14 Compliance Requirement:** Ohio Rev. Code § 3375.404 - Additional borrowing authority for boards of library trustees.

**Summary of Requirements:** Ohio Rev. Code § 3375.404 allows a board of library trustees of a public library that receives an allocation of the library fund to anticipate its portion of the proceeds of the library fund distribution and issue library fund facilities notes to pay the costs of financing the facilities (or certain other property), or to refund any refunding obligations.

A library board may issue such notes only if it projects that the annual note service charges (including interest, repayment of principal, and redemption premiums) are capable of being paid from the library’s annual Library and Local Government Support Fund (LLGSF) (also known as: “public library funds”) receipts.

The maximum annual debt service for these notes cannot exceed 30% of the average LLGSF funding (public library funds) the library received for the two years preceding the year the notes were issued.

The notes are payable from the LLGSF monies (public library funds) received by the library board issuing the notes, or from the proceeds of notes, refunding notes, or renewal anticipation notes which may be pledged for such payment in the authorizing resolution. The notes are payable solely from the funds pledged for their payment as authorized by Ohio Rev. Code § 3375.404 and all notes must contain on their face a statement to that effect.

The maximum maturity, in the case of any anticipation notes, cannot exceed 10 years from the date of issue of the *original* anticipation notes.

For *refunding* notes or any notes that are not anticipation notes, the maximum maturity cannot exceed 25 years from the date of the original issue of notes.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Bond Counsel/Lender Involvement</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

By reading the minutes, inspecting bond ledgers or other documents, or by inquiry, determine if the library used this type of borrowing.

Calculate, or inspect the library's calculations, that the maximum annual note debt service charges does not exceed 30% of the average LLGSF funding (public library funds) for the two years preceding the year in which the notes are issued. (This step should only apply in the year notes were issued.)

Inspect the notes for the statement that the notes are payable solely from the funds pledged for their payment as authorized by Ohio Rev. Code §3375.404. In other words, ensure the debt service funds were allocated to the appropriate fund(s) based on the legal authority to retire the debt.

Inspect the notes for the maximum maturities of 10/25 years.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-15 Compliance Requirement:** Ohio Rev. Code §133.29, 135.14, 731.56 Governments investing in their own securities.

Important Note: Entities must have the legal authority to *both buy and sell* the debt. Ohio Rev. Code §133.29 authorizes entities to invest in their own securities; however, there must be a separate, specific authority to issue the debt before the Bond Retirement or other authorized Fund may purchase it.

### Summary of Requirement:

#### Manuscript and Treasury Debt in General

Before a taxing authority sells any securities of the subdivision to others, the taxing authority may offer the securities at their purchase price and accrued interest to the subdivision. The securities may be offered to the officer or officers who have charge of the bond retirement fund of the subdivision, or in the case of a municipal corporation, to the treasury investment board, or an officer or similar treasury investment board having the authority under a charter. (Ohio Rev. Code §133.29). Ohio Rev. Code §133.01(NN) defines a "taxing authority" to include a county's board of county commissioners, a municipal corporation's legislative authority, a school district's board of education, and a township's board of township trustees, among others defined in the Code.

This type of debt is often referred to as "manuscript debt" or "treasury debt". Manuscript or treasury debt can be outstanding for five years, unless it is matched to a specific obligation or debt of the subdivision (such as obligations of the debt retirement fund). (Ohio Rev. Code §135.14(D)).

Any securities sold under this section shall bear interest at a rate(s) that is a fair market rate(s) for such securities at the time of the sale, and a certificate of the fiscal officer that the interest rate(s) borne by the securities is the fair market rate(s) is binding as to the statements set forth. (Ohio Rev. Code §133.29(B)).

In addition to a taxing authority's ability to direct the bond retirement fund of the subdivision to purchase its securities, certain taxing authorities have additional options for purchasing manuscript or treasury debt.

#### County

A County may invest its "inactive moneys" in bonds or other obligations of the County. (Ohio Rev. Code § 135.35(A)(4)). Ohio Rev. Code § 135.31 defines a county's "inactive moneys" as all public moneys in public depositories in excess of the amount determined to be needed as active moneys (which are the amount of public moneys in public depositories determined to be necessary to meet current demands upon a county treasury, and deposited in a commercial or money market account). There is no limit on what fund the inactive moneys must be drawn from, so there is more flexibility for purchasing manuscript or treasury debt.

#### Other Political Subdivisions in General

All other political subdivision investments are addressed in Ohio Rev. Code § 135.14. The statute permits a political subdivision to invest "interim moneys" in a series of investment categories. "Interim moneys" are defined in Ohio Rev. Code § 135.01(F) as public moneys in the treasury of the state or any subdivision after the award of inactive deposits has been made in accordance with Ohio Rev. Code § 135.07, which moneys are in excess of the aggregate amount of the inactive deposits (a public deposit other than an interim deposit or an active deposit) as estimated by the governing board prior to the period

of designation and which the treasurer or governing board finds should not be deposited as active or inactive deposits for the reason that such moneys will not be needed for immediate use but will be needed before the end of the depository period of designation. The depository period of designation is the period of time during which the governing board has designated a public depository for public moneys of the subdivision, a designation that must be made once every five years. (Ohio Rev. Code §135.12(B)). An "active deposit" is defined as a public deposit necessary to meet current demands on the treasury.

### **Municipal Corporation (City and Village)**

In addition to the bond retirement fund options provided in Ohio Rev. Code § 133.29, a municipal corporation (city or village) may invest moneys in the treasury that will not be required to be used for a period of six months or more in the obligations of the municipal corporation (Ohio Rev. Code § 731.56). For the purposes of this section, any "interim moneys" or "inactive deposits" that will not be needed within six months may be invested. Similar to the rules for a County, there is no prescription as to which fund the "interim moneys" or "inactive deposits" must be drawn from.

Ohio Rev. Code § 731.57 and 731.58 add some extra qualifiers for manuscript or treasury debt investments. Before the investment is made, the auditor or chief fiscal officer must certify to the mayor or village solicitor/law director the probable requirements of money for the use of the municipal corporation for the next six months. The mayor or village solicitor/law director may then order the investments. It is not necessary to advertise bonds to make such an investment.

When a municipal corporation acts to convert such investments into cash, the obligations must first be offered to the sinking fund commission. If the sinking fund commission does not purchase the investments, they may then be sold in any manner authorized by law for the sale of investments by the sinking fund.

For as long as the treasury maintains these investments, they are held in a "treasury investment account". The chief accounting officer of the municipal corporation will enter all transactions relating to the investment of treasury funds in security obligations of the municipal corporation. When securities or interest coupons are due, the accounting officer shall collect them in the same manner as other receipts are collected.

~~Interest earned on such investments shall be paid into the general fund, unless the invested money was taken from a special fund or funds derived from the sale of bonds, notes, or certificates of indebtedness. In such case, the interest should be paid into the sinking fund or bond retirement fund of the municipal corporation. (1942 Op. Atty. Gen. No. 1942-4897) Interest earned from the investment or deposit of tax revenues must be allocated to the fund to which the principal belongs. (OAG opinion 80-003).~~

### **Charter Municipal Corporations**

If a municipal corporation has adopted a charter, it may adopt its own set of investment principles that may be different from those expressed in the Ohio Revised Code. Ohio Rev. Code § 133.29 authorizes a municipal corporation that has a charter to authorize a treasury investment account that would operate in the same way as a municipal corporation treasury investment account under Ohio Rev. Code § 731.56. Beyond this provision, a municipal corporation may adopt a charter that addresses its ability to invest in manuscript or treasury debt as long as it does not conflict with general laws. (Ohio Const. Art. XVIII, Section 3.).

### **School Districts**

School districts do not have any options for manuscript or treasury debt beyond using moneys in the bond retirement fund as discussed in Ohio Rev. Code § 133.29, 1955 Op. Atty. Gen. No. 1955-5263). Such a transaction will be considered an investment of the sinking fund or bond retirement fund, and interest will be deposited and reinvested just like other investments of the sinking fund or bond retirement fund.

**Townships**

Townships do not have any options for manuscript or treasury debt beyond using moneys in the bond retirement fund as discussed in Ohio Rev. Code §133.29.

**Accounting for Manuscript Debt**

There are two methods for recording manuscript debt in the accounting records:

*Investment Method*

Record proceeds from the sale of notes in the borrowing fund (often the general fund or project fund). Then record the amount received from the Bond Retirement Fund (or other authorized fund in the case of municipal corporations) as an investment on the investment record. Do not decrease the Bond Retirement or other authorized fund’s balance. When preparing the bank reconciliation, outstanding securities should be included as an investment.

The county auditor, having been properly notified of the debt service requirements, should allocate property taxes on the tax settlement among the proper funds. The amount payable to the Bond Retirement or other authorized fund is the amount necessary to repay the principal plus interest on the outstanding securities. Debt service principal and interest, should be recorded in the Bond Retirement or other authorized fund. Upon payment of principal, a corresponding reduction of the investment should be recorded on the investment record.

*Advance/Interfund Method*

Record an advance-in in the debtor (borrowing) fund and a corresponding advance-out of the creditor (loaning) fund. Also, governments reporting under GAAP should record an interfund asset and offsetting interfund liability for both modified and full accrual bases. If the borrowing is between a governmental activity and a business type activity, the entity wide statements should also report this as an internal balance (GASB Cod. 1300.120 and 1800.102(a)).

Governments reporting under GAAP must use the Advance/Interfund method for financial statement reporting (2013-14 GASB Comprehensive Implementation Guide Q&A 6.4.5). This means that if a GAAP entity uses the Investment Method for their accounting records, they must convert the transactions to the Advance/Interfund Method during the GAAP conversion.

GAAP, Cash, and OCBOA basis governments should disclose the fund liabilities, including interest rates and repayment schedules, in their notes under either accounting method.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>Policies and Procedures Manuals</li> </ul>		

<ul style="list-style-type: none"> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Bond Counsel/Lender Involvement</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		
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Determine whether the entity issued manuscript debt during the audit period or has any manuscript debt outstanding as of fiscal year end.

If so, review the governing body’s ordinance or resolution approving the issuance and determine the legal authority under which such debt/investment was issued. If applicable, we may rely on an opinion from bond counsel to verify the entity’s legal authority for issuing such debt. A copy of the ordinance or resolution and bond counsel opinion should be placed in the permanent file.

Determine the issuance date<sup>43</sup> of the debt/investment and review the entity’s debt/investment schedules to determine whether the principal matured within five years.

Review the entity’s debt/investment schedules and determine whether the entity has charged interest at the proper rate and amount in the Bond Retirement or other authorized fund.

***For all entities other than municipal corporations,*** determine whether the amount of manuscript debt issued was limited to the available resources in the bond retirement fund.

***For municipal corporations,*** determine whether the amount of manuscript debt issued was limited to the available resources in the general treasury or other authorized fund.

Scan the entity’s debt schedules, investment records, monthly bank reconciliations, and annual financial statements to determine whether the entity has properly accounted for all manuscript debt transactions (i.e., note proceeds, property tax and interest receipt allocations, debt service payments on principal and interest, and outstanding debt and investment amounts).

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

<sup>43</sup> Issuance date isn’t always the sale date. If the “Obligation’s Closing Date” is the actual date of the issuance, this should be recorded as the issuance date.

## ACCOUNTING AND REPORTING GENERAL

**1-16 Compliance Requirements:** Ohio Admin. Code § 117-2-03(B) and Ohio Rev. Code § 117.38 and §1724.05: Annual financial reporting.

### Summary of Requirements:

Note: The Auditor of State is in the process of ~~developing an~~ implementing the Annual Financial Data Reporting System (System AFDRS). AFDRS is an Internet based application that allows certain financial statement, debt, and demographic data to be entered and transmitted to the AOS to satisfy the filing requirements prescribed by the Ohio Revised Code and the Ohio Administrative Code. ~~More information will be provided to entities as this process gets closer to completion.~~ All cities and counties were required to report via AFDRS for periods ended December 31, 2013 and after, and all schools, community schools and educational service centers were required to report via AFDRS for periods ended June 30, 2014 and after. All townships, villages and libraries will be required to report via AFDRS for periods ending December 31, 2014 and after. All other entity types will be phased into AFDRS reporting. Please refer to the Auditor of State website at <https://ohioauditor.gov/financialreporting/default.html> for additional information.

### GAAP Basis Entities

Ohio Admin. Code § 117-2-03(B) requires counties, cities, school districts, educational service centers, and community schools to report annually (but not necessarily account) on a GAAP basis.

Ohio Rev. Code § 1724.05 requires Community Improvement Corporations established under Ohio Rev. Code Chapter 1724 to report annually (but not necessarily account) on a GAAP basis.

Per Ohio Rev. Code §117.38, ~~entities filing on a GAAP-basis entities~~ must file annual reports ~~within 150 days of their fiscal year end (except Ohio Rev. Code § 1724.05 requires community improvement corporations to file within 120 days of their fiscal year end).~~<sup>44</sup>

Per AOS Bulletins 2006-002 and 2008-001, annual reports filed with AOS must be **complete** to avoid the application of a penalty of \$25 per day (\$750 maximum) permissible under Ohio Rev. Code §117.38. To be **complete**, GAAP entities must submit the basic financial statements, including the government-wide financial statements, fund financial statements, notes to the basic financial statements, Management's Discussion & Analysis, and any other required supplementary information to be considered a complete

<sup>44</sup> We will cite noncompliance if a "GAAP government" files OCBOA- ~~cash, modified cash~~ or regulatory financial statements. The following cite would apply:

"Ohio Admin. Code § 117-2-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. The County filed financial statements with the Auditor of State, but those statements followed a cash and investments accounting basis rather than generally accepted accounting principles. The accompanying financial statements and notes omit material assets, liabilities, fund equities, and disclosures. The County is subject to fines and various other administrative remedies."

(For this finding we need not differentiate regulatory vs OCBOA formatting or list the date the statements were filed, because it is irrelevant.)



filing.<sup>45</sup>

**Cash Basis Entities**

Per Ohio Rev. Code §117.38, entities filing on a cash-basis<sup>46</sup> entities must file annual reports with the Auditor of State within 60 days of the fiscal year-end. The Auditor of State may prescribe by rule or guidelines the forms for these reports. However, if the Auditor of State has not prescribed a reporting form, the public office<sup>47</sup> shall submit its report on the form used by the public office. Any public office not filing the report by the required date shall pay a penalty of \$25 for each day the report remains unfiled, not to exceed \$750. The AOS may waive these penalties, upon the filing of the past due financial report.

The report shall contain the amount of: (A) receipts, and amounts due from each source; (B) expenditures for each purpose; (C) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and (D) **public debt** of each taxing district, the purpose of the debt, and how the debt will be repaid. NOTE: Using AOS shell reports will meet this requirement<sup>48</sup>.

**Note:** We normally would not deem a late filing to constitute “direct and material” noncompliance on the determination of financial statement amounts (i.e. the auditor would normally not report a late filing citation in the GAGAS compliance report, however the auditor should issue a management letter comment for late filings.)

Material noncompliance would ~~also~~ exist if:

- An entity subject to GAAP did not follow GAAP in its annual report.
- A GAAP filing was significantly incomplete (see discussion of complete in the *GAAP Basis Entities* section above).
- The filing was significantly misstated.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> </ul>		

<sup>45</sup> Failing to file an annual report could be a symptom of an inadequate accounting system, inadequate training of personnel in understanding the accounting and reporting process, unposted or unreconciled records or other significant issues affecting the control environment, or which may even pose fraud risks.

<sup>46</sup> Cash basis includes OCBOA-cash, OCBOA-modified cash and regulatory basis.

<sup>47</sup> Ohio Rev. Code § 117.01(D) states that, as used in Ohio Rev. Code Chapter 117, “*public office* means any state agency, public institution, political subdivision, or other organized body, office, agency, institution, or entity established by the laws of this state for the exercise of any function of government.” 1989 Op. Atty. Gen. No. 89-055 indicates the Auditor of State has discretion to interpret and apply the definition of “public office” used in Ohio Rev. Code § 117.01(D). The Auditor of State has therefore determined that charter schools qualify as public offices as defined under this section.

<sup>48</sup> For OCBOA-cash or OCBOA-modified cash basis, the applicable basic financial statements, include the government-wide financial statements, fund financial statements, notes to the basic financial statements, Management’s Discussion & Analysis, and any other required supplementary information.

<ul style="list-style-type: none"> <li>• Presence of an Effective Accounting System</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		
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**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Inquire if the government files its financial reports with the Auditor of State on a GAAP basis.

Confirm whether the report was filed timely.

Note: The AFDRS tracker includes due dates and filing dates. Auditors should check the tracker to determine compliance with due dates. If an entity’s report was not filed by the required due date or by an approved extension date, a management letter comment should be issued.

Auditors should inspect a copy of the filed report (in most cases auditors can obtain this report through AFDRS, if AFDRS access is unavailable obtain a copy of the filed report retained and available in the fiscal office) to determine whether a GAAP filing was substantially complete.

Trace selected totals from the ~~annual~~ filed report to the underlying accounting system. *(If we use the ~~annual~~ filed report as a trial balance, AOS auditors will satisfy this requirement by completing the mandatory Trial Balance steps from the financial audit program.)* If the report is significantly deficient, we should cite Ohio Rev. Code § 117.38 or § 1724.05 for filing an incomplete or misleading report, ~~as described in the box above.~~

Determine whether the filed report includes the statements, disclosures and required supplementary information (if applicable) required by GAAP (i.e. determine if the filing was substantially **complete** as described above.

If the government is not mandated to follow GAAP and presents AOS Basis special purpose framework statements (instead of OCBOA special purpose framework (“GAAP look-alike”)):

- Follow AU-C 800.21 which retained the guidance from AOS Bulletin 2005-002 and applies when regulatory basis statements are available for general use (local government statements we or IPA’s audit are available for general use). AU-C 800.21 requires issuing a dual opinion:
  - An adverse opinion on conformance with GAAP.
  - A second opinion on the regulatory basis.

If a GAAP-mandated government does not follow GAAP or present OCBOA special purpose framework (“GAAP look alike”) statements but presents AOS Basis special purpose framework statements:

- Issue adverse opinion on conformance with GAAP
  - These governments do not qualify for the “dual opinion.”
- Issue GAGAS noncompliance finding

If a GAAP-mandated government presents their financial statements using an OCBOA special purpose framework (“GAAP look-alike statements”):

- Follow AU-C800.A25 which requires auditors to include an emphasis of matter paragraph following the opinion paragraph alerting the users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework and that the basis of accounting is a basis of accounting other than GAAP.
- Issue GAGAS noncompliance finding

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-17 Compliance Requirements:** GAAP and annual financial reporting for community improvement corporations (CICs)<sup>49</sup> and development corporations (DCs).<sup>50</sup>

**Summary of Requirements: Annual Reporting** (Ohio Rev. Code § 1724.05– CICs and §1726.11– DCs)

- Corporations must submit (unaudited) annual GAAP financial reports to the Auditor of State. The corporation must file the annual report within 120 days of fiscal year end.<sup>51</sup> The Ohio Revised Code does not prescribe a fiscal year end for these corporations.

**Failure to Report/Present Auditable Records** (Ohio Rev. Code §1724.06- CICs and § 1726.12- DCs)

- Additionally, the Auditor of State must certify corporations to the Secretary of State in the following two circumstances:
  - If a Corporation files its annual report more than 90 days delinquent (i.e., does not file its annual GAAP financial statement report within 120 days of its fiscal year end).
  - If a Corporation does not present auditable records within 90 days of a determination by the Auditor of State that a corporation is unauditale.
- Upon certification, the Secretary of State is to cancel the Corporation’s articles of incorporation until the deficiency is remedied.
- For more information, see AOS Bulletin 2001-003.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.

<sup>49</sup> Being non-profit under chapter 1702 is not enough to be a CIC. To be a CIC requiring an AOS audit, the entity must be incorporated under both 1702 & 1724. (A Development Corp. would only be incorporated under chapter 1726.) Read the articles and see if they refer to chapters 1724 or 1726. Merely entitling an entity as an “improvement” or “development” corporation is not sufficient. The articles of incorporation must support that the entity falls under 1724 or 1726.

<sup>50</sup> Development corporations organized under Ohio Rev. Code Chapter 1726 are stock-issuing entities.

<sup>51</sup> CICs or DCs that do not file GAAP statements and notes (and required supplementary information, if any) within 120 days of its fiscal year end are *not* subject to AOS penalties prescribed in Ohio Rev. Code §117.38. “A community improvement corporation is, in essence, a private non-profit corporation which is bound by the general terms of Ohio Rev. Code Chapter 1702 (non-profit corporations). A privately organized entity that performs a public purpose occupies a status no different from that of countless other non-profit corporations, the private nature of which is indisputable. Nor is a community improvement corporation possessed of powers derived from statute. Although Ohio Rev. Code § 1724.02 provides that a community improvement corporation shall possess certain powers enumerated therein, the ultimate source of its power is not Ohio Rev. Code § 1724.02, but its articles of incorporation and code of regulations.” [1979 Op. Atty Gen. No. 79-061] Also, auditors should take note that CIC and DC are subject to a 120-day filing requirement rather than the 150-day requirement applicable to other GAAP entities.)

<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of an Effective Accounting System</li> <li>• Legislative and Management Monitoring</li> </ul>		
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**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Read the corporation’s annual report. Determine if it complies with GAAP in material respects.

If a corporation does not file its annual GAAP financial statement report, or does not present auditable records within 90 days of the Auditor of State’s determination of unauditability:

- The Chief Auditor will consult with the Chief Deputy Auditor. The Chief Deputy Auditor will determine whether to request the Legal Division to issue a subpoena for the accounting records.
- IPA firms should contact the Regional Chief Auditor regarding these matters

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**OTHER LAWS AND REGULATIONS GENERAL  
VARIOUS ENTITY TYPES**

**1-18 Compliance Requirement:** Ohio Rev. Code § 9.833, ~~§ 2744.08~~ and § 305.172 - Health Care Self Insurance<sup>52 53</sup>

**Summary of Requirement:** Ohio Rev. Code § 9.833 requires individual, self-insured governments or joint self-insured health-care programs to calculate (i.e., reserve<sup>54</sup>) amounts required to cover health care benefit liabilities. (Health care insurance includes, but is not limited to health care, prescription drugs, dental care and vision care.) It also requires programs to prepare a report, reflecting those reserves (i.e., liabilities) and the aggregate of disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. This report is not filed with any office, including the Auditor of State; the government should make it available upon request. Programs must prepare (i.e. obtain) and maintain a certified audited financial statement and a report of amounts reserved for the program and disbursements made from such funds. The program administrator must provide the report to the Auditor of State. The program must include a contract with a certified public accountant and a member of the American Academy of Actuaries for the preparation of the written evaluations described in this paragraph. (See bulletin 2011-008)

The provisions regarding the self-insurance programs do not apply to an individual self-insurance program created solely by municipal corporations. For this purpose, "municipal corporation" means all municipal corporations, including those that have adopted a charter under the Ohio Constitution.

An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries.

Individual governments subject to this requirement must establish an internal service fund to account for this activity.

Per Ohio Rev. Code § 9.833(E), some of the aforementioned requirements do not apply to municipalities. ~~See the matrix appended to Auditor of State Bulletin 2001-005 regarding which provisions apply to various government types. Ohio Rev. Code § 9.833 applies to school districts.~~ Note: Auditors should refer to Auditor of State Bulletin 2011-008 for additional guidance.

<b>In determining how the government ensures</b>	<b>What control procedures address the</b>	<b>W/P</b>
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<sup>52</sup> FYI: Ohio Rev. Code § 9.833(D) also permits subdivisions to procure group life insurance for its employees in conjunction with an individual or joint self-insurance program. However, neither a government nor a pool can self-insure for life insurance. (That is, a government must purchase life policies from commercial insurers.)

<sup>53</sup> Ohio Rev. Code § 305.172 and Ohio Rev. Code § 9.833(B)(2), permit political subdivisions and boards of county commissioners that provide health care benefits for their officers or employees to establish and maintain an individual health savings account program as part of their self-insurance program. These accounts must be maintained in accordance with section 223 of the Internal Revenue Code [26 U.S.C. § 223]. Public moneys may be used to pay for or fund federally qualified high deductible health plans that are linked to health savings accounts or to make contributions to health savings accounts. Auditors should not audit compliance with Internal Revenue Code regulations governing health care savings accounts. Rather, be aware that such accounts may be included in self-insurance activity accounted for in the internal service or other appropriate fund as permitted by statute.

<sup>54</sup> “Reserve” in this context means liabilities measured in accordance with accepted actuarial principles.

compliance, consider the following:	compliance requirement?	Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Subdivisions<sup>55</sup> (except municipalities, ~~townships, and counties~~) must establish an internal service fund to account for health self-insurance activity. Determine if the subdivision established the required fund.

Inspect the actuary’s certificate (i.e. opinion) that the amounts reserved conform to accepted loss reserving standards. (This requirement does not apply to municipalities, ~~townships or counties~~.)

Test information the subdivision submitted **to the actuary** to determine this information is supported by the client’s accounting or other applicable records. Testing information the client provides to the actuary<sup>56</sup> when the actuary’s liability calculation is accrued as a GAAP liability<sup>57</sup> or presented in a cash-basis entity’s notes.

Determine whether the actuary’s opinion language (including the scope of the work) generally complied with the example described in the “Actuarial Opinions” section of Auditor of State Bulletin 2001-005.

Consider whether any qualification in the actuary’s report affects the financial statement opinion or indicates noncompliance with Ohio Rev. Code § 9.833.

Determine if a cash-basis (or AOS basis) government’s audited statements disclose self insurance activity based on the example disclosure in Bulletin 2001-005. (For cash-basis entities, an inability to adequately calculate and present the liability may constitute a qualification related to the adequacy of disclosure.)

<sup>55</sup> Ohio Rev. Code § 9.833 and § 2744.01 define a subdivision as any municipal corporation, township, county, school district, or other body corporate and politic responsible for governmental activities in a geographic area smaller than the State. As used in Ohio Rev. Code § 9.833, a “political subdivision” also includes the entity types described in Ohio Rev. Code § 3905.36.

<sup>56</sup> AU-C 620 clarifies that the *Specialist* standard only applies to a specialist the auditor employs or contracts with. Auditors are responsible for testing the liability an actuary computes on behalf of the auditee using the *Evidence* standard in AU-C 500.

<sup>57</sup> As Bulletin 2001-005 describes, actuarial principles for measuring these liabilities are similar but not identical to GAAP requirements per GASB 10. A government can use the actuarially-computed liability in its financial statements if it does not materially differ from GAAP measurement requirements.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**



**1-19 Compliance Requirement:** Ohio Rev. Code § 2744.081 - Liability Self Insurance

**Summary of Requirement:** This section requires joint self-insurance programs (such as governmental self-insurance pools) insuring against judgments, settlement of claims, expense, loss and damages that arise, or are claimed to have arisen, from an act or omission of the subdivision or any of its employees and to indemnify or hold harmless the subdivision’s employees, to reserve<sup>58</sup> amounts to cover potential costs. It also requires the program to prepare a report, reflecting those reserves (i.e., liabilities) and the aggregate of disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. This report is not filed with any office, including the Auditor of State; it should be retained by the government and be made available upon request.

An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries.

The aforementioned requirements apply only to governmental risk pools or other joint governmental liability insurance programs.

**Note: Auditors should refer to Auditor of State Bulletin 2001-005 for additional guidance.**

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Determine whether a report presenting the actuarially-measured liabilities and disbursements during the year was obtained.

Inspect the actuary’s certificate that the amounts reserved conform to accepted loss reserving standards.

Test information the client submitted to the actuary to determine this information is supported by the client’s accounting or other applicable records. Testing information the client provides to the actuary is necessary<sup>59</sup> when the actuary’s liability calculation is accrued as a GAAP liability<sup>60</sup> or presented in a cash-basis entity’s notes.

<sup>58</sup> “Reserve” means liabilities measured in accordance with accepted actuarial principles.

<sup>59</sup> AU-C 620 clarifies that the *Specialist* standard only applies to a specialist the auditor employs or contracts with. Auditors are responsible for testing the liability an actuary computes on behalf of the auditee using the *Evidence* standard in AU-C 500.

Determine whether the actuary’s opinion language (including the scope of the work) generally complied with the example described in the “Actuarial Opinions” section of Auditor of State Bulletin 2001-005.

Consider whether any qualification in the actuary’s report affects the financial statement opinion or indicates noncompliance with Ohio Rev. Code § 2744.081.

Determine if a cash-basis (or AOS basis) government’s audited statements disclose self insurance activity based on the example disclosure in Bulletin 2001-005. (For cash-basis entities, an inability to adequately calculate and present the liability may constitute a qualification related to the adequacy of disclosure.)

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

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<sup>60</sup> As Bulletin 2001-005 describes, actuarial principles for measuring these liabilities are similar but not identical to GAAP requirements per GASB 10. A government can use the actuarially-computed liability in its financial statements if it does not materially differ from GAAP measurement.

**1-20 Compliance Requirement:** Ohio Rev. Code § 117.13(C)(3) – Allocating Audit Costs

**Summary of Requirements:** Local governments can charge audit costs to funds other than the general fund only if the charges are properly allocated to those funds.

CAUTION: This may not be material; if this is immaterial you may reduce or eliminate testing.

**Ohio Rev. Code § 117.13(C)(3)** states the fiscal officer may distribute such total cost of the audit to each fund audited in accordance with its percentage of the total cost.

**Auditor of State Bulletin 2009-011** includes the following guidance for allocating audit costs to funds:

The fiscal officer should determine which funds should be charged a percentage of the audit costs. The Auditor of State is of the opinion that most operating funds of a local government, including utility funds (i.e., water, sewer, electric, refuse), special levy funds, funds that receive gas taxes, and motor vehicle registration fees can be charged a portion of the audit costs.

Other funds of a local government that may be charged a percentage of the audit costs include bond and grant funds. The ability to charge bond funds will depend on the allowable uses defined in the bond legislation. Trust and other funds that receive donations restricted to specific purposes will require analysis by the fiscal officer of the restrictions imposed by the donor and/or trust agreement to determine if any audit costs may be charged to those funds. Agency funds, because of their custodial nature, should not be charged for any share of the cost of an audit for the fiscal officer’s role as the fiscal agent.

In determining a percentage of total cost that may be charged to a fund, any reasonable and rational method such as a percentage of the fund’s revenue or expenditures compared to the total revenue or expenditures for all funds, excluding agency funds, would be acceptable. A local government’s indirect cost allocation plan may also be an acceptable method for allocating audit costs.

For grant funds, the costs of audits are allowable if the audits were performed in accordance with the ~~Single Audit Act, and Circular A-133~~ OMB Super Circular, "Audits of States, Local Governments, and Non-Profit Organizations." Generally, the percentage of costs charged to Federal awards for a single audit shall not exceed the percentage derived by dividing Federal funds expended by total funds expended by the recipient or sub-recipient (including program matching funds) during the fiscal year. The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs. Other audit costs are allowable if specifically approved by the awarding or cognizant agency as a direct cost to an award or included as an indirect cost in a cost allocation plan or rate.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Time summaries / timecards</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in</li> </ul>		

laws and regulations		
<ul style="list-style-type: none"><li>• Management’s communication of changes in laws and regulations to employees</li></ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Determine if the government charges funds other than the general fund for audit costs. If so, review documentation supporting how the government determines a reasonable basis for allocating audit costs to funds other than the general fund. (Lack of formal documentation should not result in a citation or finding for adjustment if the allocation is reasonable.)

Determine if the government allocates audit costs to grant funds. If so, review documentation supporting the government received a Single Audit and allocated the audit costs to grant funds in accordance with Federal guidelines.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**If the compliance attributes listed in 1-21 below were tested during payroll substantive testing, no additional tests are needed.**

**1-21 Compliance Requirements:** Vacation and sick leave

**Vacation leave:**

Ohio Rev. Code § 325.19 and § 3319.084 prescribe vacation benefits for **county** and **school non-teaching employees**, respectively. See tables below.

The governing authorities of other local governments set vacation policy by statute, ordinance or charter. However, collective bargaining agreements supersede local statutes, ordinances or charters.

**Ohio Rev. Code § 325.19 —County vacation leave**

<b>Ohio Rev. Code § 325.19 Years of service</b>	<b>Vacation leave earned</b>
<1	0
≥1 but <8	80 hrs. per year
≥8 but <15	120
≥15 but <25	160
≥25	200

Note: Employees of county departments of jobs and family services accrue vacation pursuant to Ohio Rev. Code § 124.13. However, this Section prescribes the same vacation accruals as does Ohio Rev. Code § 325.19, above. Additionally, if a separation from county service occurs in connection with the lease, sale, or other transfer of all or substantially all the business and assets of a county hospital organized under Ohio Rev. Code Chapter 339 to a private corporation or other entity, the county shall have no obligation to pay any compensation with respect to unused vacation leave accrued to the credit of an employee who accepts employment with the acquiring corporation or other entity, if at the effective time of separation the acquiring corporation or other entity expressly assumes such unused vacation leave accrued to the employee's credit.

**Ohio Rev. Code § 3319.084-- School nonteaching employee vacation leave**

<b>Ohio Rev. Code §3319.084 Years of service</b>	<b>Minimum vacation leave earned</b>
<1	0
≥1 but <10	2 weeks
≥10 but <20	3 weeks
≥20	4 weeks

**Ohio Rev. Code § 9.44** generally requires an Ohio local government to include an employee’s prior service with the State or other Ohio local governments when computing vacation leave. However, there are exceptions to this general rule. While this would rarely, if ever, be significant, if this applies to an employee’s leave you are testing, see Ohio Rev. Code §9.44 regarding the exceptions.

**Sick leave:**

Ohio Rev. Code § 124.38 prescribes 4.6 hours of sick leave for each 80 hours of completed service (120 hours / year), applicable to **county** (except for superintendent and management employees of County Boards of Development Disabilities defined in Ohio Rev. Code § 5126.20), **city, and civil service township service**. Ohio Rev. Code § 124.38 also applies to employees of any **state college or university**, and **certain board of education employees** (board of education employees for whom sick leave is not provided by Ohio Rev. Code § 3319.141).

Ohio Rev. Code § 3319.141- Sick leave for **school employees**: Earn 1¼ days per month (15 days / year), accumulating to a maximum of 120 days. However, a school board may adopt a policy permitting accumulations > 120 days. The requirements of Ohio Rev. Code § 3319.141 do not apply to substitutes, adult education instructors who are scheduled to work the full-time equivalent of less than one hundred twenty days per school year, or persons who are employed on an as-needed, seasonal, or intermittent basis.

Per Ohio Rev. Code § 124.39, employees governed by Ohio Rev. Code § 124.38 and employed for ≥ 10 years, are eligible for payment of 25% of their unused sick leave balance, up to a maximum of 30 days, upon retirement.

**Note:** These sections describe minimum vacation and sick leave. Governments generally may provide more than the minimum. These sections also prescribe procedures for paying the employees' accumulated leave balances upon separation from service.

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note:** Auditors should consider whether governments have vacation and sick leave policies placed in operation and have historically demonstrated effective internal controls over payroll and related compliance requirement. Additionally, adequate training of payroll personnel and supervisory monitoring controls can help mitigate the risk of noncompliance with vacation and sick leave compliance requirements.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Time summaries / timecards</li> <li>• Legislative and Management Monitoring</li> <li>• Management's identification of changes in laws and regulations</li> <li>• Management's communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

For GAAP entities, it is usually efficient to include these procedures when testing the financial statement liability for compensated absences.

1. Obtain a copy of resolutions, ordinances or collective bargaining agreements setting vacation leave. Maintain an up to date copy in the permanent file.
2. Determine the procedures followed for recording the accrual and use of sick leave and vacation. (If leave accrual is automated and online with standing data, very limited recomputations of additions to leave balances should suffice for testing credits (i.e. additions) to leave accrual.)
3. Review the calculations of employees' leave balances credited and used, including appropriate leave forms. Determine whether the computations use the hours the Ohio Revised Code, local legislation or collective bargaining agreements authorize.
4. Determine if any employees left service this year? For a representative number of employees who left service determine whether the computations use the hours the Ohio Revised Code, local legislation or collective bargaining agreements authorize.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**If the compliance attributes listed in 1-22 below were tested during payroll substantive testing, no additional tests are needed.**

**1-22 Compliance Requirements:** Internal Revenue Code (IRC) Chapter 26 [26 U.S.C.] - Collection of Income Tax at Source on Wages; 26 U.S.C. § 3401 through 3406:

- §3401: Definitions;
- §3402: Withholding of income tax from wages;
- §3403: Employers liable for payment of the tax deducted and withheld;
- §3404: Return of amount deducted and withheld shall be made by appropriate officer of the governmental employer;
- §3405: Withholding on pensions and annuities;
- §3406: Backup withholding
  
- 26 U.S.C. §3102(a): Deduction of [Medicare] tax from wages;
- 26 U.S.C. §132: Exclusion of certain fringe benefits from gross income;
- Internal Revenue Regulations (26 C.F.R.):
  - §1.61-21: Taxation of fringe benefits;
  - §1.6041-1: Reporting of income aggregating \$600 or more [i.e., 1099s-MISC]<sup>61</sup>;
  - §1.6041-2: Reporting of wage income aggregating \$600 or more [i.e., W-2s];
  - §1.6041-3: Various exclusions;
  - §1.6041-6: Time and place for filing forms 1099 and 1096;
  - §1.6050E-1: Income tax refund reporting.
- Ohio Rev. Code §5747.06 - Collection of Ohio income tax at source.
- Various local ordinances require withholding on wages earned in the particular municipality. These should be consulted for the requirements.

**Summary of Requirement:**

These sections of the various tax codes require the employing government to withhold federal, state, and local income and employment-related taxes (such as Medicare). They also require the government to report those tax matters to the appropriate tax authorities and to the recipients. Certain of these sections require consideration of whether employer-provided “fringe” benefits, such as use of government automobiles for private purposes, constitute taxable income to be reported and withheld upon.

Effective for tax years beginning after December 31, 2009, Section 2043 of the Small Business Jobs and Credit Act of 2010 (Public Law No. 111-240) removed employer-provided cell phones from the definition of “listed property” in the tax code. While cell phones are still subject to being a taxable benefit, the new legislation removes the special record-keeping requirements of listed property. However, employers still should have a policy prohibiting any more than a de minimus personal use of government-owned cell phones.

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<sup>61</sup> All payments to attorneys of \$600 or more that are not otherwise reported (e.g., on form W-2 for attorneys who are employees) must be reported on form 1099-MISC.



**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note: Auditors should consider whether governments have historically demonstrated effective internal controls over payroll. Additionally, adequate training of payroll personnel and supervisory monitoring controls can help mitigate the risk of noncompliance with payroll compliance requirements.**

**Risk of material noncompliance is elevated when governments are in financial distress and may not pay withholdings when due.**

Note: See the *Ohio Compliance Supplement Implementation Guide* regarding IRS Referrals.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Time summaries / timecards</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Note: It is normally efficient to integrate step 1 below with payroll testing.

1. When testing payroll, determine if the government withholds state, federal and local income taxes.
2. Inquire if the government provided any employees with potentially taxable fringe benefits, such as the use of a government-owned vehicle, or an auto or uniform allowance<sup>62</sup>? If so, inquire how they compute the benefit amounts reflected in the affected employees' Forms W-2? Review 1 or 2

<sup>62</sup> The IRS rules regarding whether fringe benefits are taxable can be complex, and subject to frequent revision, such as by interpretive private letter rulings. For example: Uniforms are usually nontaxable if they meet these two tests: (1) the employee must be required to wear the article of clothing while at work (2) the item cannot be adaptable to everyday wear. Many commonly-required work clothes are adaptable (heavy-duty jeans, etc.) and would therefore normally be taxable benefits. In private letter\* ruling 201005014, the IRS determined employer-provided clothing is a nontaxable benefit for employees of a political subdivision of a state. However, the IRS cautioned us that the private letter ruling applied only to the narrow circumstances described therein and ought to not be construed to mean government-provided clothing is generally nontaxable. Therefore, governments should obtain IRS publications or advice from a qualified tax practitioner in determining whether benefits are taxable. It is impractical to include this guidance in the Ohio Compliance Supplement.

\* Letter Rulings may not be cited as a precedent by any government other than the one which requested the ruling; however, your legal advisor might find it useful to review.

employees' W-2s that include these amounts.

3. Inquire if the government paid any independent contractor (other than a corporation) \$600 or more during this year? If so, review a few issued Forms 1099s.
4. If the government assesses an income tax, scan a few Forms 1099G for municipal income tax refunds exceeding \$10 each.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**If the compliance attributes listed in 1-23 below were tested during payroll and nonpayroll substantive testing, no additional tests are needed.**

**1-23 Compliance Requirement:**

- Ohio Rev. Code § 145.01, 145.03, 145.47, 145.48, and Ohio Administrative Code Rule 145-1-26 - **Public Employees Retirement System (PERS)**, definitions, exclusions, exemptions and rates of contributions.
- Ohio Rev. Code § 742.01, 742.02, 742.31 to 742.34 - **Police and Fire Disability and Pension Fund**, definitions, rates of contributions and reporting requirements.
- Ohio Rev. Code § 3307.01, 3307.35, 3307.51, 3307.53, 3307.56, and 3307.691 - **State Teachers Retirement System (STRS)**, definitions, employment of retired members, contribution rates. (These sections also apply to community school employees.)
- Ohio Rev. Code § 3309.23, 3309.341, 3309.47, 3309.49 and 3309.51<sup>63</sup> - Membership in **Public School Employees Retirement System (SERS)**, employment of retired members, contribution rate, payment of expense fund. (These sections also apply to community school employees.)

**Summary of Requirement:** These sections require governments to enroll most of their employees<sup>64</sup> in the appropriate retirement system, and to withhold from the employees’ wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with an appropriate percentage of employer matching contributions.

PERS withholdings should be taken out prior to deducting medical, dental, vision, and flexible spending (Ohio Rev. Code § 3309.23 and Ohio Administrative Code Rule 145-1-26).

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note: Auditors should consider whether governments have historically remitted employee and employer contributions to the appropriate retirement systems timely and demonstrated effective internal controls over payroll. Additionally, adequate training of payroll personnel and supervisory monitoring controls can help mitigate the risk of noncompliance with retirement system compliance requirements.**

**Risk of material noncompliance is elevated when governments are in financial distress and may not pay the contributions when due.**

<b>In determining how the government ensures compliance, consider the following:</b>	<b>What control procedures address the compliance requirement?</b>	<b>W/P Ref.</b>
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<sup>63</sup> The Secretary of SERS certifies to ODE amounts ODE is to withhold from community school foundation payments for pension costs.

<sup>64</sup> Independent contractors performing the same duties as school employees as defined in Ohio Rev. Code § 3307.01, such as contract teachers teaching in a classroom, may also be subject to membership in the STRS retirement system.

<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Time summaries / timecards</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		
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**Suggested Audit Procedures - Compliance (Substantive) Tests:**

1. When testing payroll transactions, determine if the government withheld pension amounts at the proper rate.<sup>65</sup> <sup>66</sup> (Note: PERS withholdings must be taken out prior to medical, dental, vision and flexible spending account deductions.)
2. Scan payroll ledgers. List a few employees for which no pension is withheld. Ask the CFO to provide documentation or explanation as to why there is no withholdings for these employees.  
 Note: Third party contractors who provide pupil services (i.e. therapists and therapy assistants, pathologists, audiologists, social workers, nurses) are required members of STRS per STRS.
3. Examine selected payments of the withholdings from the government to the pension system. (This is an important step. Governments in financial distress occasionally resort to not paying withholdings when due. While unusual, this circumstance, even if not quantitatively material would usually be qualitative **material noncompliance**.)

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

<sup>65</sup> Pursuant to 26 U.S.C. § 3121(b)(7) ~~IRC Section 3121(b)(7)~~, AOS considers employees of community school management companies who perform teaching and administrative services to be members of STRS or SERS. Therefore, the mandatory employee and employer contributions must be paid into the appropriate State retirement systems. We have therefore previously cited management companies that *also* deducted and paid contributions to social security. AOS formally requested the IRS to confirm that it would defer to the Ohio Retirement Systems’ determination and consider the community school employees exempt from social security due to their participation in a qualified retirement plan. However, the IRS declined to confirm this exemption. Therefore, management companies may determine to risk potential IRS penalties and deem an employee to be an employee of the management company rather than the school. Contributions should continue to be remitted to the appropriate Ohio Retirement Systems if management company Boards determine the employees are members of an Ohio Retirement System. Failure to do so will still result in non-compliance citations. **However, auditors should no longer issue noncompliance citations for additional contributions to the social security system.**

<sup>66</sup> Per Ohio Admin. Code § 145-1-26 (G)(9) payments made as fees or commissions that are fixed charges or calculated as a percentage of an amount not directly related to work or services performed are not "earnable salary". Ohio PERS (OPERS) has determined that payments for meetings such as those made to Village Council should not be used for a basis of OPERS contributions. Therefore, any person receiving per meeting payments (i.e., board of public affairs, joint fire districts, cemetery districts) should be subject to the same determination.

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## SCHOOL DISTRICTS

**Revised: HB 59, 129<sup>th</sup> GA**  
**Effective: 7/1/14**  
**And**  
**HB 367, 130<sup>th</sup> GA**  
**Effective: 3/23/15**

**1-24 Compliance Requirement:** Ohio Rev. Code § 3317.01, 3317.02, 3317.03 (E), 3313.981 (F), 3313.48, and 3321.04; Ohio Admin. Code § 3301-35-06 - School District Average Daily Membership.

**Summary of Requirements:**

Schools are funded based on annualized enrollment as opposed to daily attendance. However, there is an important nexus between student attendance and enrollment for Foundation funding purposes. Students are considered as enrolled in a school until the last day of attendance or until permissible student withdrawal can occur. Schools must provide documentation that clearly demonstrates students have participated in learning opportunities. Students with excused absences remain enrolled and will be funded. Students with unexcused absences, however, must be withdrawn upon being legally deemed truant under the school's policies and related Ohio truancy statutes.

Beginning in the 2014-2015 school year, traditional school districts, and joint vocational school districts must comply with minimum hours of instruction instead of a minimum number of school days each year. Average Daily Membership (ADM) is a material variable used to compute school districts' funding, pursuant to Ohio Rev. Code § 3317.022(A). Ohio Rev. Code § 3317.03 defines ADM. Pursuant to Ohio Rev. Code § 3317.03, a student ~~must be enrolled and attending~~ school during this official count week or be excused for reasons enumerated in Administrative Rule in order to be included in the October ADM count. For purposes of state funding, "enrolled" persons are only those pupils who are attending school, those who have attended school during the current school year and are absent for authorized reasons, and those handicapped pupils currently receiving home instruction. ~~the school superintendent shall report to the state board of education as of the last day of October, March, and June of each year the enrollment of students receiving services from schools under the superintendent's supervision, and the numbers of other students entitled to attend school in the district under Ohio Rev. Code § 3313.64 or § 3313.65.~~

The new counts will be based on the annualized full-time equivalent (FTE) enrollment of each student. School districts will be able to continuously update this information, but must report actual FTE information by the last day of October, March, and June. A student's FTE will be determined based on the individualized calendar/class schedule each student is assigned to for the school year and their enrollment and withdrawal dates.

Enrollment begins "on the date on which the school has both received the documentation of the student's enrollment from a parent and the student has commenced learning opportunities offered by the district." Learning opportunities are defined as both classroom-based and nonclassroom-based learning opportunities overseen by licensed educational employees.

A district must withdraw the student for funding purposes when:

1. the district receives documentation terminating enrollment of the student,
2. the district is provided documentation of a student's enrollment in another school, and
3. The student fails to participate in learning opportunities and has not received an excused absence for one hundred and five continuous hours. If a student is withdrawn from the district for failure to

participate in learning opportunities under division (C)(1)(a)(v) of this section and the district board determines that the student is truant, the district shall take the appropriate action required under sections 3321.19 and 3321.191 of the Revised Code.

- Important Note: HB 367 amended #3 above and removed the 105 hour rule from statute, effective March 23, 2015.

The ADM used in the funding formula will continue to adjust as information is updated throughout the year.

Schools must comply with minimum hours of instruction instead of a minimum number of school days each year (Ohio Rev. Code § 3313.48).

The minimum “open for instruction” hours are:

- 455 hours for students in half-day kindergarten;
- 910 hours for students in full-day kindergarten through Grade 6; and
- 1,001 hours for students in Grades 7-12

Open for instruction includes time when the district or building is open and all students are participating in:

- Regularly scheduled classes;
- Supervised activities, such as assemblies;
- Approved education options; and
- Co-curricular activities during the scheduled school day.
- As part of the minimum hours, districts and schools may use:
- Up to two equivalent days for the purpose of individualized parent-teacher conferences and reporting periods;
- Up to two equivalent days for the purpose of professional meetings of teachers; and
- Morning and afternoon recess periods of no more than fifteen minutes each for students in Grades Kindergarten through 6.

Time spent during lunch periods, breakfast periods and extracurricular activities does not count as open for instruction. A schedule must include five days in each week.

Calamity days are no longer applicable. Instead, schools may schedule “excess” hours above the minimum number. Hours missed above the minimum do not have to be made up. However, if a school closes enough that it will fall below the minimum number of hours, the school must extend its scheduled year.<sup>67</sup>

School districts must collect the following data on each pupil during the official ADM count week (FFWO):

- Student name (listed alphabetically)
- Grade level
- Date of enrollment (date pupil enrolled in the counting school)

<sup>67</sup> One way to make up the hours missed below the minimum required is to use web lessons and blizzard bags (Ohio Rev. Code § 3313.482). Schools will submit plans explaining how they will make up the missed hours, instead of days, up to the equivalent of three scheduled days. Web lessons/blizzard bags may only be used when it is necessary to close the school because of: Disease epidemic; Hazardous weather conditions; Law enforcement emergencies; Inoperability of school buses or other equipment necessary to the school's operation; Damage to a school building; or Other temporary circumstances due to utility failure rendering the school building unfit for school use.

- Status – this is the status code used in EMIS (i.e., most will be 0 = resident student).
- Resident district IRN number (i.e., Most students will be residents of the home school district). The counting school should use the child’s resident school district IRN number for students outside of the district, such as open enrollment students.
- Attending home IRN number and indicator
- Pupil attendance (the attendance documents should indicate each day a student is not in attendance and the reason for the absence).

This data should be part of an attendance record for each student. To complete the attendance status, the person taking attendance must keep an accurate record of those students who are present and those who are absent ~~during the five days of the official count week~~. In addition, each day of absence must be determined to be excused or unexcused. ~~Only days of excused absence count toward the ADM.~~ Under Ohio Admin. Rule 3301-51-13, there are seven reasons for absence to be excused:

1. Personal illness
2. Illness in the family
3. Quarantine of the home
4. Death of a relative
5. Working at home due to absence of parents or guardians (any absence arising because of this shall not extend beyond the period for which the parents or guardians were absent)
6. Observance of religious holidays
7. Emergency or set of circumstances which, in the judgment of the superintendent of schools, constitutes a good and sufficient cause for absence from school.

The school district must determine by contact with the parent or guardian if the reason for absence is one of the seven listed. If the reason for absence is not one of the seven, the student must be marked unexcused for that day ~~and the day does not count toward the ADM for the October count week~~. Written documentation is required for excused absences and should be dated and collected in a timely fashion.

~~For the SSID’s with excused absences, request the representative building attendance officers or EMIS Coordinator to provide access to student attendance records and determine whether the school maintained documentation to support excuses. This may require reviewing attendance data in the school district’s electronic student information system (e.g., DASL, PowerSchool, Progress Books, etc.).~~

Ohio Rev. Code § 2151.011(B)(22) provides an additional list of legitimate excuses authorized as excused absences.

- Excuses for “excused” absences should be available in the school office and with the class list for each attendance teacher. This includes notes from home, phone logs, suspension notices, and other relevant documents.
  - All excuses from parents, and other documents, regardless of format or condition, become official attendance records. Ohio Rev. Code § 3317.031 requires, “this membership record shall be kept intact for at least five years and shall be made available to the State Board of Education or its representative in making an audit of the average daily membership or the transportation of the district.”

All notes and other verification information relative to excused absences and tardiness should be organized by attendance period in a folder. Suspension or expulsion are examples of other types of verification that should be included in the folder. If a telephone call is the means of confirming excused absences, a copy of the log should be included in the folder. The log should contain the date of the



absence, the date of the call, the name of the person making the call, the name and relationship of the person contacted, and the reason for the absence.

~~A school district's calendar is also an important component in school funding. Ohio Rev. Code § 3317.01 requires a school district to meet the minimum number of days or hours for a school to be open for instruction in order to be eligible for foundation payments. Ohio Rev. Code § 3313.4 provides that each school shall be open for instruction with pupils in attendance, for not less than one hundred eighty two (182) days in each school year, which may include the following<sup>22</sup>~~

- ~~• Up to four school days per year in which classes are dismissed one half day early or the equivalent amount of time during a different number of days (i.e., 2 full school days) for the purpose of individualized parent teacher conferences and reporting periods;~~
- ~~• Up to two days for professional meetings of teachers when such days occur during a regular school week and schools are not in session;~~
- ~~• The number of days the school is closed as a result of public calamity, as provided in Ohio Rev. Code § 3317.01.~~

~~In accordance with Ohio Admin. Code § 3301-35-06, the required number of instructional hours in a school day are as follows:~~

- ~~• Students in kindergarten shall be offered at least two and one half hours per day of classes, supervised activities or approved educational options, excluding the lunch period. [Ohio Admin. Code § 3301-35-06(C)];~~
  - ~~○ Districts that receive Disadvantaged Pupil Impact Aid funds for all day kindergarten shall offer five hours per day, excluding the lunch period. [Ohio Admin. Code § 3301-35-06(C)]~~
- ~~• The school day for students in grades one through six shall include scheduled classes, supervised activities, or approved educational options for at least five hours, excluding the lunch period. [Ohio Admin. Code § 3301-35-06(D)]~~
- ~~• The school day for students in grades seven and eight shall consist of scheduled classes, supervised activities (excluding interscholastic athletics), or approved educational options for at least five and one half hours, excluding the lunch period. [Ohio Admin. Code § 3301-35-06(E)]~~
- ~~• The school day for students in grades nine through twelve shall consist of scheduled classes, supervised activities (excluding interscholastic athletics), or approved educational options for at least five and one half hours excluding the lunch period. [Ohio Admin. Code § 3301-35-06(F)]~~

~~Under limited circumstances, the superintendent of public instruction may provide a written waiver to waive the required minimum number of days or hours for a school district to be open for instruction. [Ohio Rev. Code § 3317.01(B)]~~

~~Ohio Rev. Code § 3317.03 (E) requires a school district to accurately show, for each day the school is in session, the actual membership enrolled in regular day classes. This code provision further delineates which students should and should not be included in a school district's ADM count on the basis of residency, school attendance, and proficiency testing attendance.~~

Each school district is responsible for accurately reporting statistics to the Ohio Department of Education's Educational Management Information System (EMIS), which uses the statistics to compute the school district's ADM. Of the many statistics required to be reported, one of the most important is the determination of school attendance. Pursuant to Ohio Rev. Code § 3317.03 (E), a school district's attendance for ADM purposes is arrived at by determining the number of students *enrolled* during the applicable count week. The law requires each district to certify its formula ADM once annually, for the

~~first full week of October. (Ohio Rev. Code §3317.01, 3317.02, and 3317.03). Ohio Rev. Code §3317.03 (E) also defines *enrolled* to include students with disabilities currently receiving home instruction, in attendance, or not attending but having an excused absence for a valid legal reason.~~

When counting the number of students enrolled for ADM purposes, Ohio Rev. Code §3313.981 sets the requirements for the inclusion and exclusion of students who live in one district but who are paying “tuition” (i.e. *formula funding* defined in Ohio Rev. Code §3317.08) and enrolled in another district. A student should be included in the ADM count of the district in which he/she resides and not the district in which he/she pays tuition to attend.

Valid legal reasons for not attending Ohio public schools are set forth in Ohio Rev. Code §3321.04. Any reason not delineated in this code provision shall be deemed unexcused and the pupil should not be reported as enrolled for that day for ADM purposes.

Average daily membership (ADM) measures the number of students in each district. All students are counted in the ADM of the district in which they reside. ~~The current year October count is used to derive the formula ADM for all districts.~~

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring and reconciliation</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Document and evaluate procedures for ~~determining assigning students to the school district’s instructional calendars. Select a representative number of students and determine whether they were assigned to a school calendar that is reflective of their daily course schedule as evidenced by the documentation in their student file. As part of this evaluation, determine whether:~~

- ~~the school district was open for instruction for a minimum of 182 days during the school year *minus* up to the equivalent of 2 full school days for individualized parent teacher conferences, 2 days for professional development, and a maximum of five<sup>68</sup> calamity days. HB 416 proposes~~

<sup>68</sup> Calamity days are days a school is closed due to: (1) disease epidemic, (2) hazardous weather conditions, (3) inoperability of school buses or other necessary equipment, (4) damage to a school building, (5) law enforcement emergencies or (6) other temporary circumstances because of a utility failure that renders a building unfit for use. School districts are permitted to shorten any number of school days by up to two hours due to hazardous weather conditions and may pay teachers when schools are closed due to hazardous weather or other calamity. Ohio Rev. Code §3313.88 (on 7/1/2014, 3313.88 will be renumbered to 3313.482) allows for completion of make-up days via web access and/or “blizzard bags”.

adding up to four more calamity days and SB269 proposes adding up to three more calamity days for schools to use in the 2013-14 school year. Auditors should refer to the actual language of the final adopted legislation to determine if it supports an extended number of calamity days for the school year under audit.

- the days during the school year represented “full days” of pupil instruction (e.g., a full day for students in grades one through six constitutes a minimum of 5 instructional hours, in grades 7-12 a minimum of 5.5 instructional hours constitutes a full day).

If the school district was open for instruction for less than the required minimum number of days or hours, determine whether the school district received a written waiver from the superintendent of public instruction. *Authorized waivers are rare and should always be evidenced in writing.*

Document and evaluate procedures for enrolling and withdrawing pupils, and for processing excused student absences. As part of this evaluation, determine whether the district’s policies include sufficient procedures for identifying and tracking all student for whom the district is financially responsible; (a) students residing in and attending district schools, (b) students attending schools in other districts through open enrollment and contractual arrangements, (c) students placed by the courts in facilities outside the district, (d) students attending community schools, and (e) students attending non-public schools through one of the scholarship programs. Also, determine whether the school’s student withdrawal policy includes sufficient guidance to EMIS and other administrative personnel for monitoring student absences, identifying truant students, and determining the appropriate timeframe within which personnel should begin truancy proceedings and withdraw a student.

~~Compare final counts per the EMIS system with the count sheets during the October ADM count week. Seek explanations for any significant differences or adjustments.~~

For students with excused absences, select five and request the representative building attendance officers or EMIS Coordinator to provide access to the students’ attendance records, including the students’ files, and determine whether the school maintained documentation to support excuses. This may require reviewing attendance data in the school district’s electronic student information system (e.g., DASL, PowerSchool, Progress-Books, etc.).

Select a representative number of students that withdrew during the school year. The withdrawal list may be obtained by the school through EMIS or the school’s student attendance database.

- Identify when students were withdrawn and determine whether it was timely (e.g., waiting several weeks or more to withdrawal a student is not timely) based on evidence in the student’s file.
- Determine whether the appropriate EMIS withdrawal code was used (refer to Chapter 2 of the EMIS Manual) to withdraw the student based on evidence in the student’s file. Chapter 2 of the EMIS Manual provides examples of the types of documentation required to be obtained and maintained by the school for each type of withdrawal code.
- Recalculate the FTE based upon the supporting documentation contained in EMIS and the student file for the selected students to ensure it is reasonable based upon the first day of school and the last date the student attended.
- Compare the dates determined in the steps above to EMIS or other student attendance database reports. Inquire with management about any significant differences or adjustments. Consider reporting noncompliance or other client communication for any significant unexplained variances.
  - A school should not wait until March to remove a student from its enrollment if the student withdrew in October. Significant delays in reporting student withdrawals constitutes noncompliance. Likewise, a student with excessive truancy should have

received multiple communications from the school. Schools should maintain a daily call log or obtain timely excuses from the parent, guardian, or adult-aged student for excessive absenteeism that does not result in removal of a student from enrollment.

Select a representative number of students that enrolled during the school year. The new enrollment list may be obtained by the school through EMIS or the school's student attendance database.

- Identify when students were enrolled and began participating in learning opportunities and determine whether it was timely (e.g., again, waiting several weeks or more is not timely) based on evidence in the student's file.
- Determine whether the student was assigned to the appropriate student schedule calendar based upon the student's coursework as documented in the student file.
- Recalculate the FTE based upon the documentation contained in EMIS and the student file for the selected students to ensure it reasonable based upon the student's first day of participation in learning opportunities and the last day of the school year.
- Compare the dates determined in the steps above to EMIS or other student attendance database reports. Inquire with management about any significant differences or adjustments. Considering reporting noncompliance or other client communication for any significant unexplained variances.

Perform Analytical Procedures such as:

- Comparing the number of students enrolled as of October to the prior two years. Investigate any unusual or significant changes. All material changes should relate to events such as increased housing in an area, large businesses moving in or out of a school district, and any other major event that may affect enrollment.
- Compare this year's counts for selected building with previous periods. Ask for management's explanation for any significant differences.
- Determine if other student headcount lists exist that were prepared independently from those responsible for preparing the ADM counts. (Corroborating evidence from independent sources is sometimes more reliable.) Compare these counts to the ADM count for reasonableness. If independently prepared counts are not available, determine if the school district maintained counts from other weeks during the school year. If so, haphazardly select another count to compare to the October count week for reasonableness.

Where the number of students paying tuition under Ohio Rev. Code §3317.08 is expected to be significant, inspect documentation that indicates students who are paying tuition to attend are excluded from the school district's ADM (consider using analytical procedures).

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

## COMMUNITY SCHOOLS

**1-25 Compliance Requirement:** Ohio Rev. Code § 3313.64, 3314.03, and 3314.08 – Community School Funding.

**Revised: HB 59, 129<sup>th</sup> GA**

**Effective: 7/1/14**

**Summary of Requirements:**

Community schools are funded based on annualized enrollment, not attendance. However, there is an important nexus between student attendance and enrollment for Foundation funding purposes. Students are considered as enrolled in a community school until the last day of attendance or until permissible student withdrawal can occur. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities, either through attendance or evidence that a student has logged into an online learning system. Students with excused absences remain enrolled and will be funded. Students with unexcused absences, however, must be withdrawn upon reaching 105 consecutive hours of non-attendance.

Ohio Rev. Code §3314.08 provides the formula by which Community Schools are funded. Community Schools receive funding from the state through the per-pupil foundation allocation. Unlike city, local, exempted village and joint vocational school districts, Community Schools have no tax base from which to draw funds for buildings and investment in infrastructure. Ohio Rev. Code §3314.191 states that no payments will be made under Ohio Rev. Code §3314.08 during the first year of operations unless certain conditions are met.

**Full-Time Equivalence (FTE)**

A full-time student is one who attends the entire school day and entire school year; that will result with the student having a FTE of 1.00. Students who attend a Community School for less than the entire year will have an FTE equal to the total days/hours attended divided by the number of days/hours in the school year. Community Schools are funded on a per-pupil FTE basis.

**School Options Enrollment System (SOES)**

~~SOES is the EMIS subsystem that drives funding for community schools. It is a Web application administered by the Ohio Department of Education and used by community schools and traditional public schools to enter and review data used to flow funds to community schools. Community school personnel enter data in the SOES system and traditional public school personnel review, verify or challenge that data.~~

Pursuant to Ohio Rev. Code §3301.0714, schools must enter data concerning the enrollment and attendance of their students into ODE's Education Management Information System (EMIS), which ODE recently rewrote and consolidated with the School Options Enrollment System (SOES). The EMIS and SOES applications are used by all schools to enter and review student enrollment and demographic data to form the basis for the flow of funds to community schools and STEM schools. Community school personnel enter data in the EMIS and traditional public school personnel review, verify, or challenge that data in the SOES subsystem.

**Reporting Attendance in SOES**

Ohio Rev. Code §3313.64(J) states that the treasurer of each school district shall, by the fifteenth day of January and July, furnish the superintendent of public instruction a report listing the names of each child in the permanent or legal custody of a government agency or person other than the child's parent and each

child who resides in a home, who attended the district's schools during the preceding six calendar months. For each child, the report shall state the duration of attendance of that child, the school district responsible for tuition on behalf of the child, and any other information that the superintendent requires. Upon receipt of this report, the superintendent shall deduct each district's tuition obligations and pay to the district of attendance that amount plus any amount required to be paid by the state.

Ohio Rev. Code §3314.08 requires the board of education of each school district to annually report the number of students entitled to attend school in the district that are actually enrolled in community schools. This section also requires the governing authority of each community school to annually report the number of students enrolled in the community school. For each student, the governing board of the community school must report the city, exempted village, or local school district in which the student is entitled to attend.

Based on these reported numbers, the state Department of Education shall calculate and subtract the appropriate amount of state aid from each school district. The amount subtracted shall be paid to the corresponding community school or to the internet or computer-based community school entitled to receive those funds. When calculating and subtracting the appropriate amount of state aid, the department should take into consideration any enrollment of students in community schools for less than the equivalent of a full school year.

Ohio Rev. Code §3314.03 requires that the contract entered into between a sponsor and the governing authority of a community school state the following:

- that the governing authority will adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in one hundred five (105) consecutive hours of the learning opportunities offered to the student;<sup>69</sup>
- that the school will provide learning opportunities to a minimum of twenty-five students for a *minimum* of nine hundred twenty (920) hours per school year.
  - The Ohio Department of Education shall determine each community school student's percentage of full-time equivalency based on the *percentage of learning opportunities* offered by the community school to that student, reported either as number of hours or number of days. ~~A student must attend the community school for the entire school year.~~ However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year. [Ohio Rev. Code §3314.08(HL)(3)]
- that the governing authority will adopt a policy regarding the admission of students who reside outside the district in which the school is located; and
- a financial plan detailing an estimated school budget for each year of the period of the contract and specifying the total estimated per pupil expenditure amount of each such year.
- Site-based schools are also permitted to have blended learning opportunities under the authority of Ohio Rev. Code §3302.41 and §3301.079 (K)(1), subject to approval by their sponsor. As defined in Ohio Rev. Code §3301.079 (K)(1), "blended learning" is the delivery of instruction in a combination of time in a supervised, physical location away from home and online delivery where the student has some element of control over time, place, path, or pace of learning. Community schools offering blended learning opportunities must carefully document both the physical attendance of students as well as their participation in online learning opportunities as

<sup>69</sup> Valid legal reasons for non-attendance are set forth in Ohio Admin. Code §3301-69-02.

verified by log in records. The community school delivering blended learning must also make a declaration of blended learning opportunities to ODE by July 1st of each school year pursuant to Ohio Rev. Code §3302.41(A).

- Beginning in July 2015, ODE will determine the timing of a newly opening community school’s first payment upon the rating of its sponsor under the new Sponsor Evaluation System pursuant to the changes authorized in Am. Sub. HB 555 of the 129th General Assembly and modifications in policy made by ODE in the August 2014 edition of the fiscal year 2014 SOES Manual. ODE retains discretion to begin Foundation payments as early as July for newly opening community schools approved by an exemplary sponsor, so long as the contract and required forms are in place, and the sponsor has notified ODE that the community school will open. Community schools approved by sponsors with a rating lower than exemplary will receive the first monthly payment no sooner than September. AOS believes these legislative and policy changes will help reduce the risk of loss of state Foundation monies due to a community school’s failure to open.

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note:** In assessing the risk of noncompliance, auditors should consider the risk of a community school reporting “ghost” students. If this risk factor is believed to be present, auditors should consider performing an unannounced student head count. AOS auditors should consult with the Chief Deputy Auditor prior to conducting such counts, however, to ensure the necessary staff and resources are available for such a count. Auditors should be conscientious to avoid significant disruption to student classroom activities. ~~the student left after the count week, then the student was properly included in the ADM count. However, if the student actually left prior to the count week, the community school should have withdrawn the student from its enrollment and excluded the student from the ADM count.~~

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests**

Document and evaluate the school’s procedures for:

- Enrolling and withdrawing pupils timely;
- Documenting student absences; and
- Notifying the resident public school of withdrawn students or students truant for more than 105 or more consecutive hours.

As part of this evaluation, determine whether the Community School’s policies include sufficient

procedures for identifying and tracking all students for whom the *community school* is responsible. These students include those: (a) residing in and entitled to attend public schools (b) over the age of 18 that are not residing with a guardian (c) placed by the courts in facilities outside the district, (d) attending other community schools, and (e) that have been absent due to truancy for 105 consecutive hours or greater.

Inquire with community school management about the learning opportunities it offered as part of its operating standards during the audit period. Determine whether the community school offered the minimum 920 hours of learning opportunities. If the community school offered more or less than the required minimum, determine whether the community school reported the accurate number of learning opportunities to the Ohio Department of Education.

Perform the following ~~analytical~~ procedures:

***For Brick & Mortar Schools (non-electronic schools)***

- Determine whether the brick and mortar school offers blended learning opportunities. If so, review the school's educational plan approved by the sponsor to determine the nature and format of blended learning opportunities. Note: The lack of sponsor approval of blended learning opportunities constitutes noncompliance.
- For community schools offering blended learning opportunities, determine the school's policy for capturing, recording, and maintaining attendance and participation records for both classroom and nonclassroom learning opportunities.
- Select a representative number of community school students that enrolled during the school year. The new enrollment list may be obtained by the community school through EMIS or the school's student attendance database.
  - Identify when students were enrolled and began participating in learning opportunities and determine whether it was timely (e.g., waiting several weeks or more is not timely) based on evidence in the student's file and student management database.
    - Evidence of participation might include indication that student assignments were completed, progress reports were sent to students or their parents/guardians, assessment tests were completed, etc.
  - Recalculate the FTE based upon the supporting documentation contained in EMIS and the student file for the selected students to ensure it is reasonable based upon the first day of school and the last date the student attended.
  - Compare the dates determined in the steps above to EMIS or other student attendance database reports. Inquire with management about any significant differences or adjustments. Considering reporting noncompliance or other client communication for any significant unexplained variances.
- Select a representative number of students from the community school's withdrawal list. The withdrawal list may be obtained by the community school through EMIS or the community school's student management database.
  - Identify when students were withdrawn and determine whether it was timely (e.g., waiting several weeks or more is not timely).
  - Using grade records and/or attendance records, determine the last day students were reported as attending the community school.
  - If a student was reported absent for 105 consecutive hours, determine the date the student should have been withdrawn.
  - Compare the dates determined in the steps above to the EMIS or other student



management database reports. Inquire with management about any significant differences or adjustments. Considering reporting noncompliance or other client communication for any significant unexplained variances.

- *A community school should not wait until March to remove a student from its enrollment if the student withdrew in October. Significant delays in reporting student withdrawals constitutes noncompliance. Likewise, a student with excessive truancy should have received multiple communications from the school to verify the student's absence during the 105-hour period. Community schools should maintain a daily call log or obtain timely excuses from the parent, guardian, or adult-aged student for excessive absenteeism that does not result in removal of a student from enrollment.*
- Consider whether the number of reported students is reasonable considering the size of the facility.
- ~~Determine if other student headcount lists exist that were prepared independently from those responsible for preparing the ADM counts. (Corroborating evidence from independent sources is sometimes more reliable.) Compare these counts to the ADM count for reasonableness.~~
- Based on assessed risk, **consider** visiting school facilities and “informally” counting students on site. (This count must be informal. In other words, do not line up the students and ask them to count off – your count should not intrude on school activities. We realize this will not provide an exact count. Instead you are looking for evidence of obviously material overstatements of ADM/FTE.)

#### **For E-schools**

- In addition, select multiple students from the E-school's ~~SOES EMIS~~ or other student management database and compare the reported enrollment date to the latter of the: (1) login date, or (2) date the computer was received.

*Note: Students are not enrolled in an E-school until the latter of first login date or the date the computer was received. Students may waive the right to a computer; however, this documentation must be kept on file by the community school. The community school should be able to produce a report that documents login dates. Community schools should also maintain shipping logs (with tracking numbers) from the computer vendor. If the student's parent physically picked up the computer, the community school should have the parent's signature on file to support receipt of the computer.*

- Obtain the number of hours reported on the E-school's system (*this is a custom report that the community school will have to generate from their online learning portal or whatever system they use to store student hours*) for login times and non-login hours (e.g., field trips) for selected students. Compare these hours to FTEs reported in ~~SOES EMIS~~ for each selected students for the entire year. Also, compare these hours to the student file and evidence that a student participated during the time enrolled. Such evidence might include indication that student assignments were completed, progress reports were sent to students or their parents/guardians, assessment tests were completed, etc. Inquire with management about any significant differences or adjustments. Considering reporting noncompliance or other client communication for any significant unexplained variances.

*Note: This is admittedly a difficult step; however, similar to login sheets, the community school should be able to produce a report of total hours the student claimed as learning time during the year. These hours should include all learning opportunities, not just “seat time”.*

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

## MUNICIPAL

Moved from Chapter 2**1-26 Compliance Requirement:** Ohio Rev. Code Chapter 5727**Summary of Requirement: Kilowatt-hour tax (kWh tax)**

Municipal (Government) electric systems must assess a monthly kilowatt-hour (kWh) tax on end users. This tax is assessed at a variable rate that decreases as kilowatt-hour usage increases on the meters of end users (the last meter used to measure the kWh distributed). [Ohio Rev. Code §5727.81(A)]

Ohio Rev. Code §5727.82(A)(3) permits municipal electric communities to retain in their general fund the taxes collected from customers served inside their city or village limits (including taxes self-assessing customers pay, per §5727.81(C)(2)).

*Note: This legislation did not change the constitutional rule\* that municipal electric systems can sell no more than one-third of electricity outside city or village limits.*

Municipal electric systems must file a monthly report and remit to the Tax Commissioner,<sup>70</sup> by the 20<sup>th</sup> of the next month, taxes collected from any distribution customers served outside their city or village limits. Even if a municipal electric system has no sales outside of its community limits, a monthly report must be filed. [Ohio Rev. Code §5727.82(A)(1) & (A)(3)]

A self-assessing option exists for large users consuming more than 45 million kWh annually. This self-assessing customer must annually register with the Department of Taxation and pay an annual fee to the State. A self-assessing customer located inside a municipal electric community's limits must remit any kWh tax directly to the community. [Ohio Rev. Code §5727.81(C)(2)]

Every electric system liable for the kWh tax must keep complete and accurate records of all electric distributions and other records as required by the Tax Commissioner. The records must be preserved for four years after the return for the taxes for which the records pertain is due or filed, whichever is later, and be available for inspection. [Ohio Rev. Code §5727.92]

Note: AOS Bulletin 2001-011 explains these requirements in more detail. Auditors should familiarize themselves with this Bulletin before testing this requirement.

Receipts can be recorded as either "Other Local Taxes" or "Intergovernmental" depending on the situation. For example, excise taxes collected by an electric distribution plant are normally recorded as "Other Local Taxes." However, a portion of excise tax collected from the electric distribution plants is paid to the state and distributed to the various subdivisions. These receipt should be recorded as "Intergovernmental."

\* Per Ohio Const. Art. XVIII, Section 6: "Any municipality, owning or operating a public utility for the purpose of supplying the service or product thereof to the municipality or its inhabitants, may also sell and deliver to others any transportation service of such utility and the surplus product of any other utility in an amount not exceeding in either case fifty per cent of the total service or product supplied by such utility within the municipality, provided that such fifty per cent limitation shall not apply to the sale of

<sup>70</sup> Governments must pay the tax to the Tax Commissioner, unless required to remit the taxes via electronic funds transfer to the Treasurer of State per Ohio Rev. Code §5727.83.

water or sewage services.” (Note: 50% of the total supplied within the municipality = 1/3 of the total supply.)

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Tickler Files/Checklists</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

If the kWh tax is not material to the financial statements:

1. Inquire with management if they are aware of and comply with this law.
  
2. Inquire with management if they have received any correspondence from an oversight agency regarding compliance or noncompliance with this law. If so, obtain and review correspondence to determine if a material penalty exists.

If the kWh tax is material to the financial statements:

1. Determine how kWh taxes billed /collected for customers residing outside of the municipality’s limits vs. those billed / collected inside the municipality’s limits.
  
2. Inquire with the municipality if there are any self-assessing customers to whom they supply electricity. If yes, determine how the tax is transmitted to the general fund. (If the self assessor is located outside of the entity limits, the self assessor remits the kWh tax directly to the State.)
  
3. Test how the government computes / segregates the tax billed to its residents and transfers the amount to its general fund.
  
4. Test that the revenue was posted to the correct line item.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**Townships**

**1-27 Compliance Requirement:** Ohio Rev. Code §517.15 – Creates the permanent cemetery endowment fund.<sup>71</sup>

**Summary of Requirements:** Previously, this fund accounted for gifts and bequests a township invested, with the interest used to maintain the donor-designated burial lots.

Townships may receipt money from various sources into this fund, *which becomes part of the nonexpendable fund principle.*<sup>72</sup>

The sources of money a township can add to the nonexpendable endowment include gifts, charges added to the price regularly charged for burial lots, contributions and individual gifts and agreements with the purchase of a burial lot.

Townships can expend *endowment earnings* to maintain, improve and beautify specific burial lots and for general purpose maintenance, improvement and beautification of the cemeteries.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Time summaries / timecards</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

1. What are the sources of the moneys receipted into the fund? Please show me support for these sources. (Scanning the support should normally be sufficient.)
2. For what purposes were the moneys in this fund used? Please show me support for these expenditures. (Scanning the support should normally be sufficient.)
3. Compare disbursements to investment earnings. Disbursements in excess of unspent accumulated investment earnings violate Ohio Rev. Code §517.15, as the ~~Bill Analysis in the footnote below~~

<sup>71</sup> Ohio Rev. Code terminology does not affect fund classification for financial reporting. Financial statement preparers should classify this fund according to GASB Cod. 1300. This fund might be a permanent fund under GASB 54 or private-purpose trust fund under GASB 34.

<sup>72</sup> ~~According to the Bill Analysis of Amended Substitute House Bill Number 513, 124th General Assembly,~~ These financial sources become part of the endowment fund, along with any gifts, devises, or bequests for the maintenance, improvement, or beautification of the cemetery generally, or of a designated burial lot. (Ohio Rev. Code §517.15.)

describes.)

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**1-28 Compliance Requirement:** Ohio Rev. Code § 507.09 and 505.24(C) Allocating township trustee and fiscal officer compensation

**Summary of Requirement, per Ohio Rev. Code § 507.09 and § 505.24(C):**

AOS Bulletin 2013-002 states attendance at board meetings and other activities supporting the general business of the township must be allocated to the general fund; therefore, allocating 100 percent of an official's compensation to funds other than the general fund is not permitted under Ohio law.

- (1) **Trustees receiving per diem compensation (MUST USE TIME AND EFFORT DOCUMENTATION):** When members of the board of township trustees are compensated per diem, a *majority* of the board must pass a resolution establishing the periodic notification method to be used for reporting the number of days spent in the service *and kinds of services rendered* on those days.<sup>73</sup> The per diem compensation shall be paid from the township general fund or from other township funds in proportion to the kinds of services rendered, as documented. (For example, the township could charge trustee time spent on road repairs to the road & bridge fund.) Ohio Rev. Code §505.24 limits the number of days a trustee can be compensated to 200.

However, for *salaries not* paid from the general fund, 2004 Op. Atty. Gen. No. 2004-036 established the following documentation requirements:

As noted above, however, a board of trustees is authorized by Ohio Rev. Code § 505.24 to pay trustees' salaries from the general fund or other township funds "in such proportions as the board may specify by resolution." The board may therefore determine, as part of its budgeting process, to appropriate money in the EMS Fund for payment of trustees' salaries. In order to meet the provision in Ohio Rev. Code § 505.84, that the EMS Fund be used only for ambulance and emergency medical services, however, the board would be required to establish administrative procedures for assuring that the proportionate amount paid from the EMS Fund for trustees' salaries properly reflected the proportion of time each trustee spent on EMS matters relative to other township matters. This would necessitate trustees documenting all time spent on township business and the type of service performed, in a manner similar to trustees paid a per diem. To the extent that the board is able to determine the portion of time spent on EMS matters, relative to the total time spent on township business, it may pay the proportionate cost of the trustee's salary from the EMS Fund. If a trustee's time is not documented, however, then no part of his salary may be paid from the EMS Fund.

In other words, 2004 Op. Atty. Gen. No. 2004-036 requires trustees compensated on a per diem basis to establish administrative procedures to document the proportionate amount chargeable to other township funds based on the kinds of services rendered. The "administrative procedures" can be timesheets or a

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<sup>73</sup> The Ohio Rev. Code does not define a "day" for purposes of this requirement. Townships should consult with their legal counsel and adopt a policy in compliance with OAG Opinion 2004-036. If a Township has a duly enacted policy defining what constitutes a "day" in compliance with OAG Opinion 2004-036, we will audit in accordance with that policy. If the Township has not adopted a policy, we will audit proportionately based on our determination of a "day" as indicated above.

similar method of record keeping, as long as the trustees document all time spent on township business and the type of service performed. If per diem trustees do not document their time, then no part of salaries may be paid from the restricted funds.

The important factor is the portion of time spent on other township funds, relative to the total time spent on township business (as opposed to the total days in a given month). In other words, do not factor days in which no township work is done into the allocation.

Per the above, per-diem trustees must record the time spent on various tasks and the specific fund to which the township will charge their costs when paying any proportion of a trustee's salary from a restricted fund. Although the fire and rescue services, ambulance services, and emergency medical services fund under Ohio Rev. Code § 505.84 was the focus of 2004 Op. Atty. Gen. No. 2004-036, the ruling also applies to funds for the motor vehicle license tax pursuant to Ohio Rev. Code § 4504.18 and 4504.19; motor vehicle tax pursuant to Ohio Rev. Code § 4503.02; gasoline tax pursuant to Ohio Rev. Code § 5735.27(A)(5)(d); the cemetery fund pursuant to Ohio Rev. Code § 517.03, and any other restricted fund. (The sole exception to this is for trustees charging all salaries to the general fund, as described above.) The township must maintain daily records of tasks performed for each individual trustee that, when reviewed cumulatively for the fiscal year, will provide reasonable justification for the apportionment of salary between funds as specified in the resolution. **Monthly summaries in lieu of daily records are not acceptable.**

- (2) **Trustees receiving compensation by annual salary (MUST USE CERTIFICATIONS IF PAID FROM FUNDS OTHER THAN THE GENERAL FUND):** To be paid on a salary basis in equal monthly installments, the board of trustees must *unanimously* pass a resolution to allow it. To be paid from any fund(s) other than the general fund, the resolution must also specify the proportions of the salary that are to be paid from each fund (Ohio Rev. Code §505.24(C)). If trustees use the salary method and are compensated from funds other than the general fund, they must certify the percentage of the time spent working on matters that are to be paid from funds other than the general fund. Trustees must complete a certification prior to receiving his/her pay for that pay period. The certification must be done individually, but is not required to be notarized. The certification is not required to be a time log. Rather, all that is required is a statement detailing the percentage of time that the trustee/fiscal officer spent during that pay period providing services related to each fund to be charged. A sample certification is attached to AOS bulletin 2011-007. If 100% of the compensation of the township trustee is to be paid to from the general fund, no certification is required.
- (3) **Fiscal officer compensation:** Fiscal officers compensated from funds other than the general fund must certify the percentage of the time spent working on matters that are to be paid from funds other than the general fund. They must complete a certification prior to receiving his/her pay for that pay period. The certification must be done individually, but is not required to be notarized. The certification is not required to be a time log. Rather, all that is required is a statement detailing the percentage of time that the trustee/fiscal officer spent during that pay period providing services related to each fund to be charged. A sample certification is attached to AOS bulletin 2011-007. If



100% of the compensation of the township fiscal officer is to be paid from the general fund, no certification is required.

~~For salaried trustees only, AOS will forgo issuance of a finding for adjustment in any case where the Township has reasonable supporting documentation (such as detailed time and effort records, timesheets, etc.) in lieu of the certifications. Auditors should ask the Township trustee(s) to sign a retroactive certification for each pay period and attach the supporting time and effort records to the certification. Absent this documentation, auditors should issue a finding for adjustment. Also, auditors should still issue a noncompliance citation for not preparing the certifications as required by statute in all cases.~~

~~Uncertified annual salaries for salaried trustees/fiscal officer, where the trustees/fiscal officers have been paid from funds other than the General Fund, should result in findings for adjustment and the consideration of opinion qualifications including adverse opinions (if the auditee refuses to post the adjustment).~~

Undocumented per diem salaries for trustees, where the trustees officers have been paid from funds other than the General Fund, should result in findings for adjustment and the consideration of opinion qualifications including adverse opinions (if the auditee refuses to post the adjustment).

Townships allocating 100 percent of officials' salaries to restricted funds will be subject to audit findings. ~~For audits of 2011-2012 periods, noncompliance will be addressed in a management letter comment. However, for 2012-2013 and subsequent audit periods,~~ Townships must properly allocate the officials' salaries for the entire period. Failure to make necessary allocation revisions could result in findings for adjustment that may serve to disqualify the township from lower-cost agreed upon procedure audits, result in qualified opinions, or otherwise increase audit costs.

Important note: If the township allocated salaries incorrectly it is likely they allocated reimbursable health care benefits incorrectly. Improper allocations of health care benefit reimbursements should be included in the findings for adjustment (if the auditee refuses to post the adjustment).

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note:** In assessing the risk of noncompliance, auditors should consider recent changes to the statutory requirements described in this OCS step. This statute contains intricate requirements and interpretations.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Time summaries / timecards</li> </ul>		

<ul style="list-style-type: none"> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		
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**Suggested Audit Procedures - Compliance (Substantive) Tests:**

1. Document how the township records the time spent on each township service.
2. Recompute selected allocations of trustee/fiscal officer salaries or per diem amounts to each fund.

Inquire with the fiscal officer to determine how health care reimbursements are recorded.

For UAN entities: Use the wage base earning report – detail and summary. For periods before 2015, use the wage detail report.

3. For fiscal officers or trustees paid by annual salary with allocations to funds other than the general fund, trace selected allocations to certifications.
4. For trustees paid per diem, with allocations to funds other than the general fund, trace time or services performed to time or activity sheet.
5. Agree selected postings of the salaries from step 2 to the township’s check register.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**SOLID WASTE MANAGEMENT**

**1-29 Compliance Requirements:** Ohio Rev. Code § 343.01, 3734.52, 3734.55, 3734.56, 3734.57(B), 3734.573, 3734.57(G), and 3734.577 – Expenditures by solid waste management districts.

**Summary of Requirement:** Ohio Rev. Code § 343.01 and 3734.52 require all counties in Ohio to be a part of a solid waste management district, either individually or jointly as part of a multi-county (joint) solid waste management district. Ohio Rev. Code § 3734.55 and 3734.56 require all solid waste management districts to develop and submit solid waste management plans to Ohio EPA for approval. These plans address a variety of issues associated with solid waste management within the jurisdiction, including demonstrating that adequate landfill capacity exists for waste generated within the district and establishment of recycling goals. Once approved by the Ohio EPA, solid waste management districts are required to implement their plans.

Solid waste management districts are authorized to levy certain fees to fund the programs specified in their plans. Ohio Rev. Code § 3734.57(B) specifies that solid waste management districts can levy fees on the disposal of solid waste in landfills within their boundaries, and Ohio Rev. Code § 3734.573 specifies that solid waste management districts can levy fees on waste that is generated within their boundaries regardless of where the waste is disposed.<sup>74</sup> Both of these sections require the fee revenue shall be “kept in a separate and distinct fund to the credit of the district.” Ohio Rev. Code § 3734.57(G) specifies that “moneys . . . arising from the [disposal of generation fees] shall be expended by the board of county commissioners or directors of the district in accordance with the district’s solid waste management plan or amended plan . . . exclusively for the following purposes: . . .” Ohio Rev. Code § 3734.57(G) then provides ten “allowable uses” for the fee revenue.<sup>75</sup>

<b>In determining how the government ensures compliance, consider the following:</b>	<b>What control procedures address the compliance requirement?</b>	<b>W/P Ref.</b>
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals,</li> <li>• Knowledge and Training of personnel</li> <li>• Time summaries / timecards</li> <li>• Legislative and Management Monitoring</li> <li>• Management’s identification of changes in laws and regulations</li> <li>• Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Auditors should use the following sample questions and procedures:

<sup>74</sup> If a district charges a fee to private sector commercially- licensed haulers, the district cannot waive this fee for public sector commercially- licensed haulers. (Ohio Rev. Code § 3734.577)

<sup>75</sup> 2008 Op. Atty. Gen. No. 2008-021 clarifies that the fee can be “used by the district for the purposes set forth in Ohio Rev. Code § 3734.57(G)(1)-(10)] or to provide other remuneration or services to or on behalf of the district or its residents.” Since the fee can be used to subsidize the normal operations of the district, AOS believes districts should account for this fee within a separate sub-fund or account of the district’s general fund.

1. Review any policies and procedures the client has for administering this fund.
2. Test that disbursements were:
  - Allowable under one of the ten “allowable use” criteria for the fee revenue listed in Ohio Rev. Code § 3734.57(G); and
  - Allowable in accordance with the policies and procedures.
3. If significant unusual items are noted, auditors should make a referral to Ohio EPA, Division of Solid and Infectious Waste Management by sending an email to [Referrals@ohioauditor.gov](mailto:Referrals@ohioauditor.gov).

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**Appendix A - Agricultural Society Compliance Supplement**

You should use this appendix for all audits of Agricultural Societies in addition to the general laws and regulations noted as applicable to Agricultural Societies in the Legal Matrix within Implementation Guide Exhibit 5.

Agricultural societies incorporate as either county (per Ohio Rev. Code § 1711.01) or independent (per Ohio Rev. Code § 1711.02). Certain laws herein apply to one or both types. Each step describes to which type of society it applies.

*Agricultural Society Compliance Supplement*

**Applicability: County and independent societies**

**OCS Chapter 1 Part A**

**Budgetary Compliance Requirement:** An Agricultural Society is not required to follow the budgetary statutes within Ohio Rev. Code Chapter 5705. However, the *Uniform Agricultural Society Accounting System User Manual* states:

Each agricultural society shall prepare an annual budget of its revenues and expenses. The budget shall cover the period December 1st through November 30th.

The budget shall be considered and approved by the board of directors prior to the first day of the ensuing fiscal year. The budget shall be prepared at the level of the accounts from the chart of accounts which are used by the society.

Budgeted revenues and expenses should be distributed to the month they are likely to be received and expended. The distributed monthly budget should be integrated into the society’s accounting system.

Actual revenues and expenses shall be compared to budgeted amounts each month, and reported to and reviewed by the board of directors. The board of directors shall determine the reasons why actual expenses exceed or are less than budgeted expenditures by making inquiries to fair management about the reasons.

We believe Agricultural Society Boards should not present budgetary statements as part of their basic statements, because they lack the legal authority to adopt” legally binding” budget as described in GASB Codification 2400.102. Therefore, if a Society adopts a budget and wishes to present it, the statements should present it as supplemental information (not RSI). However, while not legally binding under the GASB criteria, over expending the budget could be noncompliance with a Society’ budget resolution. Determining whether noncompliance exists requires judgment based on whether the Society intends their budget to limit expenditures vs. being only a planning tool, etc.

*[Insert applicable budgetary requirements.]*

\* An appropriation is authorization to expend money.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
➤ Policies and Procedures Manuals		

<ul style="list-style-type: none"> <li>➤ Knowledge and Training of personnel</li> <li>➤ Periodic Reviews/Comparisons of Budgeted and Actual Amounts</li> <li>➤ Presence of Effective Accounting System</li> <li>➤ Legislative and Management Monitoring</li> <li>➤ Management’s identification of changes in laws and regulations</li> <li>➤ Management’s communication of changes in laws and regulations to employees</li> </ul>		
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**Suggested Audit Procedures – Compliance (Substantive) Tests:**

1. Read resolutions and determine whether the society enacted a budget. (If no budget was adopted include a management letter comment that one be adopted per the *Uniform Agricultural Society Accounting System User Manual*).
2. Inquire (or determine from reading the minutes) if amended or supplemental measures have been passed.
3. Inspect the society’s records throughout the period to determine if updates and adjustments were properly and timely posted.
4. Determine if the accounting system “integrates” budgetary data. This means the accounting system should report appropriations, encumbrances, unencumbered cash balances, and estimated receipts, and should compare budgetary data to actual results. If the client uses a manual system (i.e. spreadsheets) determine if the manual system used by the client adequately tracks and compares budgetary data.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**Applicability: County societies**

**OCS Chapter 1 Part C**

**3a. Debt Compliance Requirement:** Ohio Rev. Code §1711.18 – Issuance of county bonds to pay debts of county society; 1711.19 – Bonds; 1711.20 – Levy for payment of bonds; and 1711.21 – Use of money raised by county taxation.

**Summary of Requirement:** In a county in which there is a county agricultural society indebted fifteen thousand dollars or more and such society has purchased a fairground or title, the board of county commissioners shall submit to the electors of the county whether or not county bonds shall be issued and sold to liquidate such indebtedness. If a majority of the voters vote in favor thereof, the board of county commissioners shall issue and sell bonds of the county in the amount necessary. Such bonds shall bear interest at not more than the rate Ohio Rev. Code § 9.95 provides,<sup>76</sup> payable semiannually, and shall be issued for a period of not less than ten nor more than twenty years.

From the proceeds arising from the sale of such bonds, the board shall pay off the indebtedness for which such bonds were sold. The board of county commissioners shall levy a tax upon all the taxable property on the tax duplicate of the county for the purpose of paying such bonds as they mature and the interest thereon.

When money has been raised by taxation by a county for the purpose of leasing lands for county fairs, erecting buildings for county fair purposes, or making improvements on a county fairground, or for any purpose connected with the use of a county fairground or with the management thereof by a county agricultural society, such money shall be used for such purpose only.

Note: Bonds a county issues under this section are **county** liabilities, though the society may agree to repay the county for debt service due on the bonds. (If the society contractually agrees to pay the county for the debt service, the society’s notes should disclose a debt obligation to the county. However, do **not** characterize the obligation as *bonds payable*.)

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>➤ Policies and Procedures Manuals</li> <li>➤ Knowledge and Training of personnel</li> <li>➤ Bond Counsel/Lender Involvement</li> <li>➤ Legislative and Management Monitoring</li> <li>➤ Management’s identification of changes in laws and regulations</li> <li>➤ Management’s communication of changes in laws and regulations to employees</li> </ul>		

<sup>76</sup> Ohio Rev. Code § 9.95 states, “Interest shall not exceed the maximum or maximum average annual interest rate per annum determined in or pursuant to the proceedings for the securities by the county commissioners.”

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

- Inspect cash receipt records and minutes and determine if indebtedness exists.
- For bonds a county issues during the audit period, compare disbursements of the proceeds to the bond documents to determine if the proceeds were spent for purposes for which the bonds were issued.
- For bonds issued during the audit period, read bond contracts and summarize provisions applicable to the Society, and save in the permanent file. The summary should describe:
  - Purposes for which the debt was issued.
  - Collateral
  - An amortization schedule for any debt service the society owes to the county.
- For years in which the society owes debt service to the county, agree payments to the amortization schedule.
- Determine if a debt footnote describes the purpose, original issue amount, collateral, and an amortization schedule for this debt.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**



**Applicability: County society**

**OCS Chapter 1 Part C**

**3b. Debt Compliance Requirement:** Ohio Rev. Code §1711.25 to 1711.30 – Sale, lease, purchase, and exchange of sites by county society; payment for new site by county funds or bonds; tax levy; and approval by electors.

**Summary of Requirement:** A county agricultural society may secure a different site for its annual fair. If this occurs, auditors should review the Ohio Revised Code sections listed above and develop appropriate audit procedures.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>➤ Policies and Procedures Manuals</li> <li>➤ Knowledge and Training of personnel</li> <li>➤ Bond Counsel/Lender Involvement</li> <li>➤ Legislative and Management Monitoring</li> <li>➤ Management’s identification of changes in laws and regulations</li> <li>➤ Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

- By reading the minutes, determine if the Society procured a different site for its fair, or acquired or disposed of land where the annual fair is held. If so, review the code sections above for specific requirements.
- In the year these transactions occur, read contracts and summarize requirements imposing debt or lease payments, collateral, insurance or other obligations on the society. Save the summary in the permanent file.
- Determine if the footnotes adequately describe any leases or other society obligations, amortization schedules, etc.
- For subsequent years, agree any debt or lease payments owed to the contract summary in the permanent file.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):**

**Applicability: County societies**

**OCS Chapter 1 Part C**

**3c. Debt Compliance Requirement:** Ohio Rev. Code §1711.13 – County agricultural society may obtain mortgage debt or may enter into written agreements to obtain loans and credit for expenses.

**Summary of Requirement:** County agricultural societies may do either or both of the following:

(A) Mortgage their grounds for the purpose of renewing or extending pre-existing debts, and for the purpose of furnishing money to purchase additional land, but if the board of county commissioners has caused money to be paid out of the county treasury to aid in the purchase of the grounds, no mortgage shall be given without the consent of the board. Deeds, conveyances, and agreements in writing, made to and by such societies, for the purchase of real estate as sites for their fairs, shall vest a title in fee simple to the real estate described in those documents, without words of inheritance. This means the Agricultural Society owns the land outright without any third party claims.

(B) Enter into agreements to obtain loans and credit for expenses related to the purposes of the county agricultural society, provided that the agreements are in writing and are first approved by the board of directors of the society. The total net indebtedness incurred by a county agricultural society pursuant to this division (B) shall not exceed an amount equal to twenty-five percent of its annual revenues.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>➤ Policies and Procedures Manuals</li> <li>➤ Knowledge and Training of personnel</li> <li>➤ Bond Counsel/Lender Involvement</li> <li>➤ Legislative and Management Monitoring</li> <li>➤ Management’s identification of changes in laws and regulations</li> <li>➤ Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

- By reading the permanent file, minutes, cash receipt records, other documents, and by inquiry, determine if any such indebtedness exists.
- If there is mortgage debt, use the sources described in **a.** above to determine if the board of county commissioners paid county funds to aid in purchasing the grounds. Read a copy of the county commissioners’ resolution to determine if they gave the proper consent for this mortgage debt. Retain a copy of the resolution in the permanent file.

- Loans and Credit<sup>77</sup>
- If the Society has procured loans and credit for expenses related to the purposes of the county agricultural society, verify these agreements are in writing and were first approved by the board of directors of the society.
- Examine the society’s computation supporting that the total net indebtedness from loans and credit does not exceed twenty-five percent of its annual revenues.
- For debt issued during the audit period, compare disbursements of the proceeds to the bond documents to determine if the proceeds were spent for purposes for which the bonds were issued.
- For debt issued during the audit period, read related contracts and summarize provisions applicable to the society, and save in the permanent file. The summary should describe:
  - Purposes for which the debt was issued.
  - Collateral / mortgage
  - An amortization schedule for any debt service the society owes to the county.
- For years in which the society owes debt service, agree payments to the amortization schedule.
- Determine if a debt footnote describes the purpose, original issue amount, collateral, and an amortization schedule for this debt.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):**

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<sup>77</sup> The law authorizing this type of debt did not exist prior to the addition of (B) to Ohio Rev. Code §1711.13, effective September 26, 2003. Therefore, if any of this type of debt was acquired prior to September 26, 2003, the Agricultural Society shall discharge such debt.

**Applicability: County and independent societies**

**OCS Chapter 1 Part D**

**Accounting Compliance Requirement:** Ohio Admin. Code § 117-10-01 – Financial reporting and accounting for county agricultural societies.

**Summary of Requirement:** Each county agricultural society and independent agricultural society shall, for financial reporting and accounting purposes, record and report all financial transactions on a fiscal year basis beginning on December 1 and ending November 30. Societies shall record and report all financial transactions in accordance with the *Uniform System of Accounting for Agricultural Societies*<sup>78</sup>. Note: You can view the latest version of this at [www.ohioauditor.gov](http://www.ohioauditor.gov), under *Resources/Publications & Manuals*.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>➤ Policies and Procedures Manuals</li> <li>➤ Knowledge and Training of personnel</li> <li>➤ Presence of Effective Accounting System</li> <li>➤ Legislative and Management Monitoring</li> <li>➤ Management’s identification of changes in laws and regulations</li> <li>➤ Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

- Compare the *Uniform System of Accounting for Agricultural Societies* requirements with the systems and records the society is using.
- Determine if:
  - The required chart of accounts is used.
  - A cash journal, a receipts ledger, an expense ledger, and an investment ledger are used.

<sup>78</sup> The Auditor of State also requires by rules, that certain public offices follow a prescribed uniform chart of accounts and/or establish a fund accounting system to demonstrate legal compliance, financial accountability and to provide management with information for decision making. These rules are in Chapter 117-2 of the Ohio Admin. Code. As a matter of accountability and internal control, each public office should account for financial activities using an accounting system which demonstrates legal compliance; follows a documented chart of accounts appropriate for its particular activities; and is supported by appropriate subsidiary ledgers/journals. When a public office fails to maintain such an accounting system, auditors should consider whether the failure constitutes a reportable internal control deficiency or weakness.

- The prescribed formats for accounting and reporting information are used (including receipts, purchase orders, vouchers, checks, and bank reconciliations).

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):**

**Note: Auditors should test the applicable deposit and investment requirements documented in Chapter 2 Section E of the OCS. Refer to Implementation Guide Exhibit 5 for guidance on specific applicability.**

**Note: Auditors should test the applicable health care self insurance and liability insurance requirements documented in Chapter 1 Section F of the OCS. Refer to Implementation Guide Exhibit 5 for guidance on specific applicability.**

**Applicability: County and independent societies**

**OCS Chapter 1 Part F**

**Other Potentially Direct and Material Laws and Regulations:** Ohio Rev. Code §3769.082 – Ohio Fairs Fund; distribution.

**Summary of Requirement:** Ohio Fairs Fund moneys shall be distributed by the director of agriculture annually, on or before the first day of March, as follows:

- To each county agricultural society and to each independent agricultural society conducting an annual fair, a prescribed percentage of Ohio Fairs Fund money, to be allocated for general operations.
- To each county agricultural society and each independent agricultural society conducting horse races (harness races or running races) during their annual fair, the sum of four thousand dollars, to be used as purse money for horse races in accordance with this section, and the additional sum of one thousand dollars to each such county agricultural society and independent agricultural society to be used for race track maintenance and other expenses necessary for the conduct of such horse races or colt stakes.
- A grant of four thousand dollars shall be available to each county or independent agricultural society for the conduct of four stake races for two-year-old and three-year-old colts and for four stake races for two-year-old and three-year-old fillies at each gait of trotting and pacing, provided, that at least five hundred dollars shall be added to each race. Exclusive of entrance fees and the excess moneys provided below, the grant of four thousand dollars for purse money provided, a sum not to exceed three thousand dollars may be used by a society to reach the required purse for each of the eight stake races. Such stake races shall be distributed as evenly as possible throughout the racing season.
- In the event that the moneys available on the first day of March of any year are less than that required above, the amount distributed from the Ohio Fairs Fund may be different than the amounts reflected above.
- County agricultural societies and independent agricultural societies conducting stake races shall, on or before the first day of November in the year immediately preceding the year in which the moneys are to be distributed, make application for participation in such to the director of agriculture on forms provided by the director.
- Distribution of moneys for stake races shall not be paid to county agricultural societies and independent agricultural societies that conduct on their race courses automobile or motorcycle races during any year for which such distribution is requested, unless such automobile or motorcycle races are not conducted during the days and nights that horse racing is being conducted at such fair.
- Any county agricultural society or independent agricultural society which uses the moneys distributed under this section for any purse other than that provided in this section is not eligible to receive distribution from the Ohio Fairs Fund for a period of two years after such misuse of such moneys occurs.

<b>In determining how the government ensures compliance, consider the following:</b>	<b>What control procedures address the compliance requirement?</b>	<b>W/P Ref.</b>
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<ul style="list-style-type: none"> <li>➤ Policies and Procedures Manuals</li> <li>➤ Knowledge and Training of personnel</li> <li>➤ Periodic Reviews/Comparisons of Budgeted and Actual Amounts</li> <li>➤ Presence of Effective Accounting System</li> <li>➤ Legislative and Management Monitoring</li> <li>➤ Management’s identification of changes in laws and regulations</li> <li>➤ Management’s communication of changes in laws and regulations to employees</li> </ul>		
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**Suggested Audit Procedures – Compliance (Substantive) Tests:**

- Determine whether the society receipted Ohio Fairs Fund in the State and Local Fund, and how much was restricted for racing purses and track maintenance according to the above sections.
- Compare amounts distributed for race purses and track maintenance to the amounts restricted to these purposes, and compute whether the amounts disbursed at least equaled the restricted amounts.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):**

**OCS Chapter 1 Part F**

**Compliance Requirement:** Ohio Rev. Code §117.38, 901.06, and 1711.05 – Filing financial reports and Publication of treasurer’s account.

**Summary of Requirement:** Prior to the first day of December of each year, the director of agriculture shall set a date in January of the following year, on which the director shall meet with the presidents or other authorized delegates of agricultural societies which conduct fairs in compliance with sections 1711.01 to 1711.35, inclusive, of the Revised Code, and regulations of the department of agriculture. Each society shall deliver its annual report to the director at or before the January meeting. [Ohio Rev. Code § 901.06]

Cash-basis entities must file annual reports with the Auditor of State. Since the Auditor of State has not prescribed a form for the report, the society shall file an annual report using the format as suggested in the handbook titled, “Uniform System of Accounting for Agricultural Societies.” Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfilled, not to exceed seven hundred fifty dollars. [Ohio Rev. Code § 117.38]

<b>In determining how the government ensures compliance, consider the following:</b>	<b>What control procedures address the compliance requirement?</b>	<b>W/P Ref.</b>
<ul style="list-style-type: none"> <li>➤ Policies and Procedures Manuals</li> <li>➤ Knowledge and Training of personnel</li> <li>➤ Periodic Reviews/Comparisons of Budgeted and Actual Amounts</li> <li>➤ Presence of Effective Accounting System</li> <li>➤ Legislative and Management Monitoring</li> <li>➤ Management’s identification of changes in laws and regulations</li> <li>➤ Management’s communication of changes in laws and regulations to employees</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

- 2) Trace selected totals from the annual report to the underlying accounting system. If we use the annual report as a trial balance, we will satisfy this requirement by completing the mandatory Trial Balance steps from the financial audit program. If the report is significantly deficient, we should cite Ohio Rev. Code §117.38 for filing an incomplete or misleading report.
  
- 3) Search LGS’s annual report file to determine whether the government filed an annual report with our office.



4) Inquire to determine the date the report was filed with the Director of Agriculture.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):**

**Note: Auditors should test depository requirements as applicable in Chapter 2 Section E of the OCS. Refer to Implementation Guide Exhibit 5 for guidance on specific applicability.**

**Note: Auditors should test public meetings requirements as applicable in Chapter 3 of the OCS. Refer to the Implementation Guide Exhibit 5 for guidance on specific applicability.**

**Note: Auditors should test public records requirements as applicable in Chapter 3 of the OCS. Refer to the Implementation Guide Exhibit 5 for guidance on specific applicability.**

**Note: Auditors should test income tax requirements as applicable in Chapter 1 Section F of the OCS. Refer to Implementation Guide Exhibit 5 for guidance on specific applicability.**

**Applicability: County and independent societies**

## CHAPTER 2 INDIRECT LAWS & STATUTORILY MANDATED TESTS

**AU-C 250.A13** Many laws and regulations relating principally to the operating aspects of the entity do not directly affect the financial statements (their financial statement effect is indirect) and are not captured by the entity's information systems relevant to financial reporting. Their indirect effect may result from the need to disclose a contingent liability because of the allegation or determination of identified or suspected noncompliance.

**AU-C 250.06 b** also requires testing other laws that do not have a direct effect. These other “indirect” laws are defined as laws which may be:

- i. fundamental to the operating aspects of the business,
- ii. fundamental to an entity's ability to continue its business, or
- iii. necessary for the entity to avoid material penalties

Chapter 2 includes “indirect” laws. Chapter 2 also includes laws that statutes mandate auditors to test during an audit.

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## BUDGETARY REQUIREMENTS

**2-1 Compliance Requirement:** Ohio Rev. Code §5705.39 - Appropriations limited by estimated resources.

**Note:** Auditors should not cite entities in Fiscal Emergency for violating Ohio Rev. Code § 5705.10, 5705.36, 5705.39 or 5705.41 (A), (B) or (C) for funds that were already in a deficit at the time a Fiscal Emergency was declared.

Auditors should continue to cite entities for healthy funds (those with positive cash balances at the time of declaration) that experience a deficit after declaration<sup>1</sup>. Therefore, auditors should compare fund deficits during the audit period to the funds that were in deficit at the point when the Fiscal Emergency was originally declared to determine whether any new funds have incurred a deficit balance.

**IMPORTANT:** In order to determine which funds were in a deficit at the time of the declaration auditors should review the declaration of Fiscal Emergency available on the Auditor of State website audit search. The Financial Supervisor (LGS) can assist auditors determining which funds were originally part of the Fiscal Emergency deficit declaration, if needed.

**Summary of Requirements:** Ohio Rev. Code § 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Note: If a government fails to receive the county auditor's certifications that appropriations do not exceed estimated resources, governments may present the appropriations passed by the legislative authority on the financial statements. No citation should be made if the government requested the county auditor's certificate and the county auditor failed to respond. However, a noncompliance citation is still appropriate if appropriations exceed estimated resources by a material amount.

As discussed in Auditor of State Bulletin 1997- 012, if a local government is participating in a grant or loan program whereby proceeds will be received after the expenditures are incurred, it is possible that if properly budgeted, appropriations for one fiscal year will exceed the available amount on the certificate of estimated resources. Ohio Rev. Code §5705.42 makes formal legislative appropriation for certain grants and loans unnecessary. As such, we believe it is equally unnecessary to require a subdivision to seek certification of the amended appropriation measure for purposes of Ohio Rev. Code §5705.39. However, the fiscal officer should record the appropriation amount in the accounting system and include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity. An advance should be used to prevent a negative fund balance. *(School districts are permitted to incur deficit fund balances in their special funds under certain circumstances. Refer to OCS section 1-4 for additional guidance.)*

### Project-Length Budgeting

As described in AOS Bulletin 1997-012, once a grant is awarded or a loan is approved by the Federal or State government, the fiscal officer must obtain an Official Certificate of Estimated Resources or an Amended Certificate of Estimated Resources for all or part of the grant or loan, based on what is to be

<sup>1</sup> In rare instances, complying with the recovery plan can cause violations of Chapter 5705. In these instances, auditors should not cite violations of 5705 if they were necessary in order to comply with the recovery plan.

received in the fiscal year. Any money expected to be received in the next year should be reflected on the next year’s certificate. However, if the local government, with the exception of a school district, has budgeted on a project-length basis pursuant to Ohio Rev. Code § 9.34(B), the fiscal officer must obtain an Official Certificate of Estimated Resources for the entire project-length fiscal period.

The fiscal officer shall record the appropriations in accordance with the terms and conditions of the grant or loan agreement. In addition, prior to recording the appropriations, the legislative authority must pass a resolution amending its appropriation measure (Ohio Rev. Code § 5705.40). If the grant or loan will be expended over a period longer than the current fiscal year, only the amount estimated to be obligated during the current fiscal year should be recorded as appropriated. The remainder of the project should be appropriated in the subsequent year(s).

In situations where the grant or loan proceeds will be received after the expenditures are incurred (i.e., on a reimbursement basis), it is possible that the local government will have appropriated an amount for one fiscal year that is in excess of the amount reflected as available on the Amended Certificate of Estimated Resources. This situation will NOT constitute a noncompliance citation during an audit.

**5705.28(B)(2) Requirements for entities that do not levy taxes (See the Legal Matrices in Exhibit 5 of the OCS Implementation Guide for applicable entities)**

If an entity levies taxes, the sections above apply. However, some entities with taxing authority do not levy taxes. When they do not levy taxes, Ohio Rev. Code §5705.28 (B)(2) permits a comparable, but somewhat streamlined budget process. Ohio Rev. Code §5705.28(B)(2) requires entities to follow §5705.36. While Ohio Rev. Code §5705.39 does not apply, §5705.28(B)(2)(c) prohibits appropriations from exceeding estimated revenue (i.e. receipts + beginning unencumbered cash).

**Suggested Audit Procedures:**

Compare the final year end appropriation measures for selected funds (normally the general fund and major funds are sufficient) and determine that the appropriations do not exceed the official or amended estimate of resources (estimated revenues plus unencumbered fund balances) as of the fiscal year end. (It should not be necessary to schedule out all of the appropriation amendments throughout the year.)

Except: if the government is in fiscal emergency, and you are testing a fund with a beginning unencumbered deficit, compare appropriations to estimated receipts instead of to estimated resources.

For grants or loans awarded by the Federal or State government, determine whether the entity implemented project-length budgeting pursuant to Ohio Rev. Code § 9.34(B). If so, determine whether the fiscal officer obtained an Official Certificate of Estimated Resources for the entire project-length fiscal period and that only the amount estimated to be obligated during the current fiscal year was recorded as appropriated for advance-funded grants and loans. If the local government appropriated amounts beyond fiscal year end, determine whether the exception above was met (i.e. reimbursable grants or loans).

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**2-2 Compliance Requirements:** Ohio Rev. Code §§ 5705.41 (A) and (B); and 5705.42 Restrictions on appropriating and expending money.

**Note:** Auditors should not cite entities in Fiscal Emergency for violating Ohio Rev. Code § 5705.10, 5705.36, 5705.39 or 5705.41 (A), (B) or (C) for funds that were already in a deficit at the time a Fiscal Emergency was declared.

Auditors should continue to cite entities for healthy funds (those with positive cash balances at the time of declaration) that experience a deficit after declaration<sup>2</sup>. Therefore, auditors should compare fund deficits during the audit period to the funds that were in deficit at the point when the Fiscal Emergency was originally declared to determine whether any new funds have incurred a deficit balance.

**IMPORTANT:** In order to determine which funds were in a deficit at the time of the declaration auditors should review the declaration of Fiscal Emergency available on the Auditor of State website audit search. The Financial Supervisor (LGS) can assist auditors determining which funds were originally part of the Fiscal Emergency deficit declaration, if needed.

### Summary of Requirements:

The authorization of a bond issue is *deemed an appropriation*<sup>3</sup> of the proceeds of the bond issue for the purpose for which such bonds were issued. No expenditure shall be made from any bond fund until first authorized by the taxing authority. [§ 5705.41(A)].

Similarly, Federal and State grants or loans are “*deemed appropriated*” for such purpose by the taxing authority” as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection [§5705.42].

No subdivision or taxing unit is to expend money unless it has been appropriated. [§ 5705.41(B)].

<sup>2</sup> In rare instances, complying with the recovery plan can cause violations of Chapter 5705. In these instances, auditors should not cite violations of 5705 if they were necessary in order to comply with the recovery plan.

<sup>3</sup> “Deemed an appropriation” under this section means the Federal or State government has already appropriated and established the purpose(s) for which a government can spend monies received from Federal or State grants and loans. The taxing authority cannot deviate from this purpose; the taxing authority can only resolve to spend the money for a purpose already prescribed in a contract, grant agreement, loan agreement, etc. Therefore, Federal and State grants and loans received under Ohio Rev. Code § 5705.42 *do not* require formal appropriation by the legislative body. In other words, Ohio Rev. Code § 5705.42 effectively eliminates an unnecessary appropriation action by the taxing authority. However, Ohio Rev. Code § 5705.42 directs the fiscal officer to *record* the appropriation amount in the accounting system. The fiscal officer should also include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity. Note: Amounts “deemed appropriated” are subject to inclusion in GAAP budgetary presentations (GASB Cod. 2400.102). The government has no legal authority to spend these resources unless they were either appropriated by the legislative authority or deemed appropriated by the Federal or State government. (GASB Comprehensive Implementation Guide Q&A 7.91.14.).

**5705.28(B)(2) Requirements for entities that do not levy taxes (See the Legal Matrices in Exhibit 5 of the OCS Implementation Guide for applicable entities)**

If an entity levies taxes, the sections above apply. However, some entities with taxing authority do not levy taxes. When they do not levy taxes, Ohio Rev. Code §5705.28 (B)(2) permits a comparable, but somewhat streamlined budget process. Ohio Rev. Code §5705.28(B)(2) requires these entities to follow §5705.41(B) and so they cannot disburse more than appropriated.

**Suggested Audit Procedures:**

For selected funds (normally the general fund and major funds are sufficient) compare total expenditures plus contract commitments (including outstanding encumbrances) from each fund versus appropriations and determine if the expenditures and commitments are within the appropriations for the tested funds at year end.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**



**CONTRACTS AND EXPENDITURES  
COMMUNITY SCHOOLS**

**2-3 Compliance Requirement:** Ohio Rev. Code § 3314.24(A) **Internet- or computer-based community school** cannot contract with a nonpublic school for instructional facility space.

Notes:

(1) Violations require ODE to withhold foundation payments for any students using nonpublic school facilities.

(2) Ohio Rev. Code § 3314.02(A)(7) defines Internet- or computer-based community schools as those in which the enrolled students work primarily from their residences on assignments in nonclassroom-based learning opportunities provided via an internet- or other computer-based instructional method that does not rely on regular classroom instruction or via comprehensive instructional methods including internet-based, other computer-based, and noncomputer-based learning opportunities.

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Read internet schools' contracts for instructional space. Determine if contracts for instructional space were with nonpublic schools.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**ACCOUNTING AND REPORTING  
VARIOUS ENTITY TYPES**

**2-4 Compliance Requirements:** Ohio Admin. Code § 117-2-02(D) and (E) Accounting records

**Summary of Requirement:**

All local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records **should** include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
  - a. Payroll records including:
    - i. W-2's, W-4's and other withholding records and authorizations;
    - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
    - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
    - iv. Information regarding nonmonetary benefits such as car usage and life insurance; and
    - v. Information, by employee, regarding leave balances and usage;
  - b. Utilities billing records including:
    - i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;

- ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and noncash adjustments, each maintained by date and amount;
  - iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above
- c. Capital asset records\* including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

Ohio Admin. Code § 117-2-02(E) states that each local public office should establish a capitalization threshold\* so that, at a minimum, eighty per cent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

\* These capital asset (fixed asset) record requirements apply to GAAP and non-GAAP mandated public offices. All public offices should have records of significant capital assets.

### Suggested Audit Procedures - Compliance (Substantive) Tests:

Ohio Admin. Code § 117-2-02 requires governments to establish internal controls and report financial information properly. Auditors may include this citation in a finding to emphasize its importance (which results in classifying the finding as noncompliance as well as a control deficiency.) However, we would not automatically deem one misclassification as reportable noncompliance under this Ohio Admin. Code Section.

Based on our systems documentation, results of inquiries and other audit procedures, assess whether the accounting system generally complies with the aforementioned requirements.<sup>4</sup>

<sup>4</sup> Note: Per AU-C 265, "A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance."

Noncompliance with these Ohio Administrative Code requirements normally also suggest control deficiencies. We would not automatically deem minor misclassifications or other lesser-significant errors as reportable noncompliance under this Ohio Admin. Code Section. While a significant deficiency may exist, it is possible that the deficiency may not necessarily rise to the level of material noncompliance. This is a matter of professional auditor's judgment. We should consider the pervasiveness of the noncompliance matter in relation to the compliance requirement and the financial statements as whole. Conversely, a failure to maintain any utility billing records (for example) would not only be a material weakness, but would be reportable noncompliance with Ohio Admin. Code § 117-2-02(D).

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

## COMMUNITY SCHOOL ADDITIONAL REPORTING

**2-5 Compliance Requirements: Per Ohio Rev. Code § 3314.024:** A management company providing services to a community school and charging more than twenty percent of the school's annual gross revenues shall provide a detailed accounting, including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the school's regular financial audit.

**Summary of Requirement:** This footnote should list management company expenses during the year by object codes (e.g., salaries, supplies, etc.). Ohio Rev. Code §3314.03(A)(8) discusses the requirements of community schools to have financial audits by the Auditor of State. The contract between the sponsor and the governing authority shall require financial records of the school to be maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and the audits shall be conducted in accordance with § 117.10 of the Revised Code. This includes classifying costs by function and object codes. *Also*, this footnote should differentiate between the direct costs and any overhead costs a management company allocates to a community school.

Material misstatement or omission of the community school financial statement footnote should be reported as GAGAS level, material noncompliance with Ohio Rev. Code § 3314.024. However, because GAAP does not require this disclosure, do not modify the opinion.

Note: This step updates guidance originally presented in Auditor of State Bulletin 2004-009.

### Suggested Audit Procedures - Compliance (Substantive) Tests:

The management company may elect to have AOS (or contracting IPA's) audit this information at the management company. AOS will examine the books, records, and other supporting documentation prepared and maintained by the management company.

Alternatively, AOS will accept a management company's independently audited financial statements as meeting the requirements of Ohio Rev. Code § 3314.024, provided the audit meets the audit and disclosure requirements set forth in the following paragraph. (IPA's may elect to follow this guidance.):

Where a management company manages more than one community school or has other "lines of business" in addition to managing a community school, AOS will require a statement showing direct and allocated indirect (e.g., overhead) expenses for each school. The companies should present this statement in a combining or consolidating format (i.e., present a column for each school). Additionally, the American Institute of Certified Public Accountants' (AICPA) audit and accounting guide, *Not-for-Profit Organizations*, sections 14.12 through 14.1411—~~and 14.12~~—permits organizations to present this as supplemental information. Notes to the supplemental information should briefly describe the method used to allocate overhead costs. Since overhead allocations require subjective judgment, their amounts and allocation method should be considered disclosures of higher inherent risk. (An example disclosure is in Appendix A to Bulletin 2004-009.).

Where a management company's sole business is providing services to one community school, the company's audited statements should suffice, if the statements classify expenses in substantial conformance with USAS object codes. (IPA's may elect to follow this guidance.)

The management company's audit opinion must extend to the combining or consolidating columns. Auditors of community schools must set their materiality threshold to include assurance the supplemental information for each school is not materially misstated. Opinions that report only on the individual school statement's fair presentation in relation to the management company's basic financial statements do not provide sufficient audit assurance, unless accompanied with an agreed-upon procedures report related to the supplemental information.

Note: The guidance below assumes the school's auditor has sufficient evidence to support an opinion on the school's statements, and is using the AUP solely for the management company footnote.

A school's auditor must judge whether deficiencies in an AUP report affect the management company disclosure sufficiently to require a GAGAS noncompliance finding. For example, completely omitting the note would require a GAGAS noncompliance finding, citing Ohio Rev. Code § 3314.024.

### Agreed Upon Procedures Guidelines

#### Bulletin 2004-009 Agreed Upon Procedures Guidelines, Revised 2010

AOS Bulletin 2004-009 included this sentence in the *Auditing the Footnote* section:

“Opinions that report only on the individual school statement's fair presentation in relation to the management company's basic financial statements do not provide sufficient audit assurance, unless accompanied with an agreed-upon procedures report related to the supplemental information.”

Based on our experience since issuing this Bulletin, we are revising this sentence as follows:

“If a management company's audited financial statements do not present combining or consolidating columns for each of its schools, or if the auditor does not provide opinion-level assurance on the combining or consolidating columns presenting each school, the Auditor of State will accept an agreed-upon procedures (AUP) report per AICPA Attestation Standards Section 201. See Bulletin 2004-009 Appendix B for procedures to which the AOS would agree.”

The following is **Appendix B, as revised**:

1. The engagement should follow AICPA Attestation Standards, Section AT 201.
2. Per AT 201.11, the AOS will be a specified party permitted to rely on the report.
3. Per AT 201.07, “To satisfy the requirements that the practitioner and the specified parties agree upon the procedures performed or to be performed and that the specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes, ordinarily the practitioner should communicate directly with and obtain affirmative acknowledgment from each of the specified parties.” AT 201.07 also states “The practitioner should not report on an engagement when specified parties do not agree upon the procedures performed or to be performed and do not take responsibility for the sufficiency of the procedures for their purposes.”

**Therefore, you the management company's practitioner auditor should e-mail a letter of arrangement and the draft (i.e. example) procedures to the schools and to AOS Center for Audit Excellence ([SSAE16@ohioauditor.gov](mailto:SSAE16@ohioauditor.gov)). AOS staff will electronically sign the letter of**

**arrangement attesting to the sufficiency of the procedures on behalf of the AOS, prior to the practitioner (“auditor”) commencing the procedures.**

**The letter of arrangement should list the schools to which the agreed-upon procedures will apply.**

**Example required procedures are 11 through 13 below.**

**Each AUP report should specify the schools to which the procedures apply.**

4. As a specified party, AOS requires the following, applicable to each Ohio school the company manages:
  - a. The accountant may issue one AUP report covering all the company’s Ohio schools.
  - b. The report must explain that the accountant performed 10. below to test the compilation of the footnotes separately for each school.
  - c. Regarding the individual expenditure tests below (steps 11. through 13.), the accountant may select one sample from the population of all costs charged to the company’s Ohio schools for each year ending June 30.
5. Ohio community schools’ fiscal years end each June 30. If the management company is on a different fiscal year, the management company must compile the footnote for each Ohio school’s June 30 fiscal year.

For example, if the management company’s fiscal year ended December 31, 2009, each Ohio school’s June 30, 2009 footnote would report expenses the management company incurred on a school’s behalf for the first six months of calendar 2009 plus the last six months of calendar 2008.

6. The accountant performing the AUP should describe the Ohio schools to which the AUP relate and should attach each of the community schools’ footnotes to the AUP report.
7. As stated in AT 201.25, auditors should report all exceptions, such as costs charged to a school where documentation does not support it directly benefited the school, or for which insufficient documentation exists.
8. Because the procedures relate to each school’s footnote, the accountant performing the AUP should apply the procedures to footnotes compiled from the management company’s accounting system, separately summarizing the expenses for each Ohio community school. This requires that the management company’s accounting system include accounts summarizing direct expenses the company incurs for each school. It is permissible to charge / assign indirect costs to these schools, *if the notes disclose the method for charging those costs, and if the note separately identifies indirect costs.*

**If the management company’s accounting system does not include separate accounts for direct expenses for each school, it is unlikely the management company can meet the requirements of Ohio Rev. Code § 3314.024. In this case, the management company or the firm completing the AUP should consult with the Auditor of State.**

9. Federal OMB Circular A-133 §\_\_\_\_.310(b) also requires each school expending more than \$500,000 of federal awards in its fiscal year to prepare a federal awards expenditure schedule. For audit periods **beginning** on or after December 26, 2014, the threshold raises to \$750,000 per the Supercircular.

**If the management company accounts for an Ohio school's federal awards, we believe it is reasonable to expect the management company to compile this schedule for each school, and for the AUP to include a procedure testing this compilation. (Also note that the Ohio Department of Education requires schools to present receipts for each program / CFDA number.)**

**Note that this requires that the management company's accounting system be capable of segregating receipts, disbursements and cash balances for each federal award program of each school.**

**Step 10.b below applies if a school expended more than \$500,000 of federal awards during its fiscal year.**

10. The AUP report should list the following procedures and the results relating to **each** Ohio school's footnote:
- Trace the management company direct expenses from each footnote by object / accounting code to the community school's accounts in the management company's accounting system.
  - Trace each school's federal award receipts and disbursements from its federal awards expenditure schedule to the community school's accounts in the management company's accounting system.
11. Haphazardly or randomly select 100 direct nonpayroll expense transactions (checks, EFTs, etc.) the management company charged to its Ohio community schools. (One sample selected from all the management company's Ohio schools will suffice. If the management company accounts for only one Ohio school, you may reduce the sample size to 60.)

Compare the amount charged to a school to supporting documentation, including a canceled check (or EFT documentation, etc.) and vendor invoice, supporting that the cost:

- Is a direct expense benefiting the school
  - Is recorded for the proper amount for the proper period in the accounting system
  - Is charged to a proper object / accounting code
12. Haphazardly or randomly select 100 direct payroll expense transactions, including salaries and benefits the management company charged to its Ohio community schools. (One sample selected from all the management company's Ohio schools will suffice. If the management company accounts for only one Ohio school, you may reduce the sample size to 60.)

Compare the amount charged to a school to supporting documentation, including a canceled check and to personnel files supporting that the cost:

- Is a direct expense paid to an employee for services provided solely to the school
- Is recorded for the proper amount for the proper period in the accounting system



- c. The amount paid agreed to the salary schedule and/or to amounts withheld
  - d. Is charged to a proper object / accounting code
13. Haphazardly or randomly select 100 expense transactions (e.g checks) assigned to any indirect cost pool that include Ohio schools. (One sample from the pool(s) for Ohio schools will suffice. If the management company accounts for only one Ohio school, you may reduce the sample size to 60.)
- a. Compare the transaction to source documentation, such as vendor invoice, personnel file, etc. supporting the cost indirectly benefits the schools or other activities to which it is allocated.
  - b. Determine the transaction is recorded for the proper amount for the proper period in the accounting system.
  - c. Obtain an understanding of the method the management company uses to pool and assign indirect costs to individual schools. Recompute selected allocations for conformity with the method.
  - d. Compare the results from steps a through c with the overhead allocation disclosure in the footnote. Report any material departures from the footnote description in terms of the actual method used and any projected dollar effects of the departure.

Note: Occasionally, these notes report more expenses than amounts the school paid to its management company. When this occurs, the management company is subsidizing (or loaning money to) the school. We believe the basic statements should report material amounts as revenue (Contributions from management company), and additional related expenses under GASB Statement No. 24.

While some may view recording this entry as “merely” grossing up revenue and expense, we believe the school’s true expenses are understated without this entry. Presenting the management company’s willingness to subsidize operations in the statements is also important information for readers. Also, we are aware that some contracts specify these amounts are repayable loans from the management company, which would require crediting “loans payable to management company” in the statement of net assets rather than “subsidy from management company” in the statement of revenues and expenses.

Auditors should obtain evidence supporting whether these amounts are subsidies or loans from the management company. Usually the contract with the management company will explain whether the school must repay the management company. We suggest representation letters include these amounts, and represent whether these amounts are contributions or repayable loans.

If these are repayable loans, the balance sheet should reflect them as such, and consider whether the opening equity is overstated based on prior year unrecorded loans.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**Revised: SB 287, 130<sup>th</sup> GA**  
**Effective: 9/04/14**

**DEPOSITS AND INVESTMENTS  
VARIOUS ENTITY TYPES  
(FOR COUNTY DEPOSIT AND INVESTMENTS SEE SECTION 2-10)**

**2-6 Compliance Requirement:** Ohio Rev. Code §135.14, §135.144 and §133.03(A)(1), 12 CFR 370 – Eligible investments for **interim** monies; section 135.13: **inactive** deposits and maturities.

**Summary of Requirements:**

- Investments must mature within 5 years from the settlement date, unless the investment is matched to a specific obligation or debt of the subdivision, or unless other provisions apply. [Ohio Rev. Code §135.14(D)]
- The following classifications of obligations are eligible for such investment or deposit:
  - United States obligations or any other obligation guaranteed as to principal and interest by the United States.<sup>5</sup> This law prohibits investing in stripped principal or interest obligations. [Ohio Rev. Code §135.14(B)(1)]
  - Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities must be direct<sup>6</sup> issuances of federal government agencies or instrumentalities. [Ohio Rev. Code §135.14(B)(2)]
  - Interim deposits in the eligible institutions applying for interim monies as provided in Ohio Rev. Code §135.08. [Ohio Rev. Code §135.14(B)(3)]
    - Per 135.13, *Interim deposits* are certificates of deposit<sup>7</sup> or savings or deposit accounts, including passbook accounts.

<sup>5</sup> See appendix E-1 of the OCS Implementation Guide for a list of agencies the Federal government guarantees.

<sup>6</sup> An example of an *indirect* issuance would be a FNMA CMO (collateralized mortgage obligation), where FNMA pools mortgages it guarantees. However, the mortgages are not a direct issuance of FNMA.

<sup>7</sup> It is the position of the Auditor of State that Ohio Rev. Code §135.03 & §135.32 prohibit purchasing certificates of deposit (negotiable\* or otherwise) from a bank unless the CD is subject to inspection by the Ohio Superintendent of Financial Institutions. Ohio is part of a nationwide cooperative agreement for examining multi-state banks in which these states agreed to recognize each other's supervisory authority for banks headquartered in another state but doing business in theirs. Therefore, it is reasonable to conclude that a multi-state bank in a state subject to this agreement is subject to inspection by Ohio's Superintendent of Financial Institutions. Multi-state banks are eligible to become a public depository for Ohio's governmental entities, subject to sections 135.01 to 135.21 of the Ohio Rev. Code. The bank should be registered with the Ohio Secretary of State to be an eligible public depository in Ohio. A government cannot purchase negotiable/brokered or nonnegotiable CDs unless the governing body has designated the bank as eligible to hold interim or inactive deposits. See ADAM 2002-005.

\*Another term for "negotiable" CDs is "brokered" CDs

- Ohio Rev. Code §135.144 also permits governments to use the Certificate of Deposit Account Registry Services (CDARS) or similar programs (one example is Star Plus) meeting Ohio Rev. Code §135.144 requirements for interim deposits. If a government purchases CDs for more than the FDIC limit (\$250,000) with a bank participating in CDARS or similar program such as Star Plus, the bank or program “redeposits” the excess amounts with other institutions. Each bank accepts less than \$250,000 so that all deposits have FDIC coverage. Ohio Rev. Code §135.144 requires a government to place its deposits with an eligible depository per Ohio Rev. Code §135.03. However, the institutions the government’s depository places excess deposits with are not subject to Ohio Rev. Code §135.03. For example, while the deposit must be initiated at an Ohio depository branch, the Ohio depository can purchase CDs from depositories outside of Ohio for the excess. Because all CDARS, Star Plus, etc. deposits have FDIC coverage, the collateral requirements of Ohio Rev. Code §135.18 and §135.181 do not apply. (That is, these are *insured* deposits for GASB 40 purposes, Appendix E-2 of the OCS Implementation Guide.) Refer to AOS Bulletin 2007-007 for additional information regarding CDARS.<sup>8</sup>
- Any CD’s purchased by a broker must be held in the name of the government. Also, the broker cannot be in possession of cash at any time. If we believe a broker has held cash for any length of time, AOS auditors should refer the matter to the Center for Audit Excellence and AOS Legal division for further evaluation. A way to verify compliance is to request monthly statements provided by the public depository located in Ohio. Ohio Rev. Code §135.144(A)(5) requires the initial public depository to provide public offices with a monthly account statement that includes the amount of its funds deposited and held at each bank, savings bank, or savings and loan association for which the public depository acts as a custodian pursuant to Ohio Rev. Code §135.144. If a public office does not have these statements, it may indicate that the money is being held by a broker-dealer in violation of Ohio Rev. Code §135.144.
- Bonds or other obligations of the State of Ohio, or the political subdivisions of this state, provided that, with respect to bonds or other obligations of political subdivisions, all of the following apply:
  - The bonds or other obligations are payable from general revenues of the political subdivision and backed by the full faith and credit of the political subdivision.
  - The bonds or other obligations are rated at the time of purchase in the three highest classifications established by at least one nationally recognized standard rating service and purchased through a registered securities broker or dealer.
  - The aggregate value of the bonds or other obligation does not exceed twenty per cent of interim moneys available for investment at the time of purchase.
  - The treasurer or governing board is not the sole purchaser of the bonds or other obligations at original issuance.

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<sup>8</sup> It is conceivable programs similar to CDARS may be established. We believe these programs would be legal if they meet all Ohio Rev. Code §135.144 requirements (an example is Star Plus). As another example, we are aware that credit unions have established a similar program to insure deposits exceeding the limits covered by the National Credit Union Share Insurance Fund. However, Ohio Rev. Code §135.144 would not permit governments to use this program because Ohio Rev. Code §135.03 (via Ohio Rev. Code §1151.01) excludes credit unions from eligible depositories. However, Ohio Rev. Code § 135.03 permits any savings association or savings bank located in Ohio, which is doing business under the authority of another state, to become an eligible public depository. Therefore, if they establish programs complying with all § 135.144 requirements, those programs would have similar legal status to the CDARS program (one example is Star Plus).

No investment shall be made under Ohio Rev. Code §135.14(B)(4) unless the treasurer or governing board has completed additional training for making the investments authorized by this section. The type and amount of additional training shall be approved by the treasurer of state and may be conducted by or provided under the supervision of the treasurer of state. [Ohio Rev. Code §135.14(B)(4)]

- No-load money market mutual funds consisting exclusively of obligations described in (B)(1) or (2) of Ohio Rev. Code §135.14 (i.e. the investments listed in the first two bullets above), and repurchase agreements secured by such obligations, provided the government purchases the money market mutual fund **only** through eligible institutions mentioned in Ohio Rev. Code §135.03 (which are, generally, Ohio banks and national banks authorized to do business in Ohio). [135.14(B)(5)] Also, per Ohio Rev. Code § 135.01(O)(2), these funds must have the highest letter or numerical rating provided by at least one nationally recognized standard rating service.
- The Ohio Subdivisions Fund (STAR Ohio) as provided in Ohio Rev. Code §135.45. [Ohio Rev. Code §135.14(B)(6)]
- Chapter 133 securities (generally debt instruments Ohio State & local governments have issued) [Ohio Rev. Code §133.03].

➤ Per Ohio Rev. Code § 135.14(E), the treasurer or governing board may also enter into a repurchase agreement with any *eligible institution* mentioned in Ohio Rev. Code §135.03 or any *eligible dealer* pursuant to Ohio Rev. Code §135.14(M). (*Eligible institutions* per Ohio Rev. Code § 135.03 include any national bank, any bank doing business under authority granted by the superintendent of financial institutions, or any bank doing business under authority granted by the regulatory authority of another state of the United States, located in this state.) *Eligible dealers* per Ohio Rev. Code § 135.14(M) are ~~national association of securities dealers members (NASD)~~ financial industry regulatory authority (FINRA), banks, savings bank, or savings and loan associations regulated by the superintendent of financial institutions, or institutions regulated by the comptroller of the currency, federal deposit insurance corporation, or board of governors of the federal reserve system.) In these agreements, the treasurer or governing board purchases, and such institution or dealer agrees unconditionally to repurchase any of the securities listed in division (B)(1) to (5) of §135.18,<sup>9</sup> except letters of credit described in division (B)(2) are not permitted for repurchase agreements.

- The market value of securities subject to an overnight repurchase agreement must exceed the cash invested subject to the repurchase agreement by 2%.<sup>10</sup> A term repurchase agreement may not exceed 30 days and must be marked to market daily.<sup>11</sup>
- All securities purchased pursuant to a repurchase agreement are to be delivered into the custody of the treasurer or governing board or an agent designated by the treasurer or governing board.<sup>12</sup>

<sup>9</sup> Ohio Rev. Code §135.18(B) (1) – (10) are summarized in Ohio Compliance Supplement Step 2-9.

<sup>10</sup> Many states do not require minimum market values of securities for repurchase agreements. Therefore, the risk of noncompliance increases when banks merge with out-of-state banks. Ohio governments are still bound by Ohio laws even if a bank's depository agreement indicates the bank follows another state's laws for the market value of securities.

<sup>11</sup> The dealer would be responsible for marking the securities, not the government.

- Repurchase agreements must be in writing. They must require that, for each transaction, the participating institution provide:
  - a) the par value of the securities;
  - b) the type, rate, and maturity date of the securities;
  - c) a numerical identifier (e.g., a CUSIP number) generally accepted in the industry that designates the securities.
  
- Agreements by which the treasurer or governing board agrees to sell securities owned by the subdivision to a purchaser and agrees with that purchaser to unconditionally repurchase those securities (i.e., Reverse Repos) are prohibited. [Ohio Rev. Code §135.14(E)]
  
- Derivative investments are prohibited. *Derivative*<sup>13</sup> means a financial instrument or contract or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself. Any security, obligation, trust account, or other instrument that is created from an issue of the United States Treasury or is created from an obligation of a federal agency or instrumentality or is created from both is considered a derivative.
  - An eligible investment described in Ohio Rev. Code §135.14 with a variable interest rate payment or single interest payment, based upon a single index comprised of other eligible investments provided for in division (B)(1) or (2) of §135.14 (see above), is **not** a derivative, if the variable rate investment has a maximum maturity of 2 years. [Ohio Rev. Code §135.14(C)] (Therefore, an investment with a variable interest rate indexed to Federal securities would be legal. However, an investment indexed to the London Interbank Offered Rate (LIBOR) or to a bank's prime rate would not be legal.)
    - 1999 Op. Atty. Gen. No. 99-026 deemed collateralized mortgage obligations to be illegal derivatives.
    - A treasury inflation-protected security (TIPS) is permissible for counties only, per Ohio Rev. Code §135.35 (B).
  
- Article VIII, Sections 4 and 6 of the Ohio Constitution prohibit public bodies from becoming a "stockholder in any joint stock company, corporation or association."
  - However, Article VIII, Section 6 of the Constitution provides an exemption which allows public bodies to purchase insurance from mutual insurance companies (Note that insured parties of mutual insurance companies become stockholders.).
  - The AOS also does not believe Ohio Rev. Code § Chapter 135 (or 1715.52(E)(3)) prohibits a government from **holding** stock **donated** to it. (However, considering the volatility of many equity securities, our management letter should recommend liquidating stock, if liquidation does not violate a trust or other agreement.)

<sup>12</sup> Counterparties (e.g. banks) accomplish this by maintaining a separate "customer" account at the Federal Reserve designated as a customer account. (For purposes of GASB 40, we currently believe securities held in a customer account would not be exposed to custodial risk.)

<sup>13</sup> Note: The Ohio Rev. Code still uses the derivative definition from GASB Technical bulletin 94-1. GASB Statement No. 53, effective for periods beginning after June 15, 2009, defines derivatives differently than does the Revised Code. So, for legal compliance purposes, governments must follow the Ohio Rev. Code derivative definition. For financial reporting, governments must follow the GASB definition. For example, interest rate swaps and energy futures contracts (which are allowable under Ohio Rev. Code § 9.835 to mitigate price fluctuations, and are not intended as investments) meet the GASB 53 derivative definition, and would be subject to GASB Statement No. 53 derivative measurement and disclosure requirements, but are **not** illegal.

- Per Ohio Rev. Code § 135.14(F), a government cannot purchase an investment unless it reasonably expects to hold it until maturity. **NOTE:** We believe the intention of this section is to reduce the likelihood a government would suffer losses on early redemptions required due to inadequate cash flow planning. See the description of audit procedures for more information.
- Per Ohio Rev. Code § 135.14(G), subdivisions may not invest interim moneys in an investment pool except:
  - The Ohio Subdivision’s Fund (STAR Ohio) pursuant to Ohio Rev. Code §135.14(B)(6).
  - A fund created solely to acquire, construct, own, lease, or operate municipal utilities pursuant to Ohio Rev. Code §715.02 or Ohio Const. Art XVIII, §4.
- Leveraging (a government using its current investment assets as collateral for purchasing other investments) is prohibited. [Ohio Rev. Code §135.14(H)]
- Issuing taxable notes for arbitrage is prohibited. [Ohio Rev. Code §135.14(H)]
- Governments cannot contract to sell securities not yet acquired (short sales), for the purpose of purchasing such securities on the speculation that their price will decline. [Ohio Rev. Code §135.14(H)]
- Payment for securities may be made only upon delivery of the securities to the treasurer, governing board, or qualified trustees, or, if not represented by a certificate, only upon receipt of confirmation of transfer from the custodian. [Ohio Rev. Code §135.14(M)(2)]
- Proceeds from refunding securities must be held in the debt service fund or in escrow, and shall be invested in direct obligations of or obligations guaranteed as to payment by the United States that mature or are subject to redemption by and at the option of the holder not later than the date or dates when the moneys, together with interest or other investment income accrued on those moneys, will be required to refund the debt. [Ohio Rev. Code §133.34(D)].
- Ohio Rev. Code §135.13 requires depositing *inactive* funds in certificates of deposit maturing not later than the end of the depository designation period or by savings or deposit accounts, including, but not limited to, passbook accounts.
  - Investments must mature within 5 years from the date of settlement unless the investment matches a specific obligation or debt, and the investment advisory committee specifically approves it.
    - A county may hold investments purchased between 3/22/12 and 9/10/12 until their maturity of up to 10 years due to a temporary change in the law.

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

Note: Some of the steps below require the same documentation / evidence auditors also use to support the *existence, valuation and classification* of investments. You can gain efficiency by combining the steps below with the substantive steps related to the aforementioned assertions.

Select a representative number<sup>14</sup> of investments and:

1. Read investment dealer confirmations\* to determine if the investment is of a type authorized.

\* Note: Dealer confirmations are suitable evidence supporting the details (e.g. valuation, occurrence) of an investment at the time of purchase. However, it provides no evidence the government still owned the investment as of its fiscal year end (the *existence* assertion). Auditors should obtain other evidence to support existence at year end. The audit program should include suitable existence steps.

2. For investments in bonds or other obligations of the State of Ohio, or the political subdivisions of this state, inspect documentation and determine whether the additional training was received. [Ohio Rev. Code §135.14(B)(4)]

3. Determine that the investments mature within the prescribed limits (generally no later than 5 years, or *other* periods for repurchase agreements, bankers' acceptances and commercial paper.)

4. Inspect documentation supporting repurchase agreements and determine that:

- a. The market values of securities exceed the principal values of securities subject to the overnight repurchase agreement by 2%. (Note: The risk of non-compliance increases when banks merge.)

- b. A term repurchase agreement did not exceed 30 days and the values of the securities were marked to market daily.

- c. Repurchase agreements were in writing, including the par value of the securities; the type, rate, and maturity date of the securities; and a numerical identifier.

5. Read the prospectus for money market mutual funds with which the government has significant investment. Determine whether the prospectus limits investments to those authorized under Ohio Rev. Code §135.14(B)(1) & (B)(2). §(B)(1) & (B)(2) describe Federally issued or insured securities. §(B)(1) & (B)(2) would not include, for example, reverse repos consisting of Federal securities or securities other states issue.

6. Determine whether money market mutual funds have the highest credit rating issued by one national ratings agency (such as that S&P, Moody's or Fitch issues).

7. Regarding Ohio Rev. Code §135.14(F), scan investment records to determine whether the government is selling securities prior to maturity. If a significant number or amount of premature sales occurred because the government had an emergency need for cash, review the CFO's cash flow forecasts supporting that the government had reasonable support, at the time of purchase, that it could hold the

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<sup>14</sup> When judging "a representative number," consider focusing on investments held at year end, but also consider testing other purchases and sales during the audit period. In judging how many purchases to test, consider the volume of purchases, the control environment, the adequacy of policies, and the results of prior audits.

security to maturity. *If there is inadequate cash flow planning*,<sup>15</sup> cite this section. The noncompliance finding should also recommend the government improve its cash flow forecasting. The finding should also describe any losses the government suffered from these sales.

7. If the government hires an investment manager for all or a portion of its investments, obtain copies of investment summary reports the manager prepares.

- a. Read the agreement between the manager and the government. Determine if the agreement (or the investment policy Step 2-7 describes) requires the manager to comply with all applicable Ohio Rev. Code Chapter 135 requirements. Maintain a copy or summary of the agreement in the permanent file.
- b. Test selected investments from the reports for compliance with steps 1 – 5 above.
- c. Scan purchases and sales to determine whether the manager sells securities prior to their maturity for other than an urgent need for cash.
- d. (Note that for financial audit purposes, an investment manager may constitute a service organization under SSAE 16 and AU-C 402)

Note: The steps above should normally be sufficient for most governments. Because we believe the risk of governments engaging in certain prohibited activities such as leveraging, short sales or arbitrage violations is low, there are no steps included to test these requirements. You should scan the other requirements in this step, and based on your knowledge of the government’s investing activities, investigate them if evidence suggests the government may have materially violated these requirements.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

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<sup>15</sup> “Emergency” premature sales can result in losses. If inadequate cash flow planning contributed to the need to sell early, we should cite them. In other circumstances, a government may choose to redeem a security early at a loss in order to re-invest at a greater overall rate of return. We would not deem this latter circumstance to violate the intent of Ohio Rev. Code §135.14(F).



**2-7 Compliance Requirement:** Ohio Rev. Code §135.14 – Other Requirements. **(FOR COUNTY DEPOSIT AND INVESTMENTS SEE SECTION 2-10)****Summary of Requirements:**

- Per Ohio Rev. Code §135.14(O)(1), Investments or deposits under §135.14 cannot be made unless a written investment policy approved by the treasurer or governing board is on file with the Auditor of State, with the following two exceptions:
  - Per Ohio Rev. Code §135.14(O)(2), If a written investment policy is not filed with the Auditor of State, the treasurer or governing board can invest only in interim deposits, STAR Ohio, or no-load money market mutual funds.
  - Per Ohio Rev. Code §135.14(O)(3), A subdivision whose average annual investment portfolio is \$100,000 or less need not file an investment policy, provided that the treasurer or governing board certifies to the Auditor of State that the treasurer or governing board will comply and is in compliance with the provisions of §135.01 to §135.21.
- Per Ohio Rev. Code §135.14(O)(1), The investment policy must be signed by:
  - All entities conducting investment business with the treasurer or governing board (except the Treasurer of State);
  - All brokers, dealers, and financial institutions, described in §135.14(M)(1), initiating transactions with the treasurer or governing board by giving advice or making investment recommendations;
  - All brokers, dealers, and financial institutions, described in §135.14(M)(1), executing transactions initiated by the treasurer or governing board.
- If any securities or certificates of deposit purchased are issuable to a designated payee or to the order of designated payee, the designated party is to be the treasurer and the treasurer's office<sup>16</sup>.
- If the securities are registerable either as to principal and/or interest, then the securities are to be registered in the treasurer's name.
- The treasurer is responsible for safekeeping all the documents evidencing a deposit or investment. Any securities may be deposited for safekeeping with a qualified trustee as provided in Ohio Rev. Code §135.18.
- Except for investments in securities described in Ohio Rev. Code §135.14(B)(5) and (6) (no-load money funds, certain repos and STAR Ohio) and for investments by a municipal corporation in the issues of that municipal corporation, all investments must be made through:
  - members of the National Association of Securities Dealers, Inc. (NASD); or
  - institutions regulated by the Superintendent of Banks, Superintendent of Savings and Loan Associations, Comptroller of Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.

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<sup>16</sup> For example, an acceptable method of complying with this requirement is for the financial institution to make the securities or certificates of deposit payable to "ABC Township, Joe Jones, Treasurer."

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

Read the government's investment policy for the period.

If there is no written investment policy filed with the Auditor of State, scan the government's investment portfolio for the period to determine that it is composed solely of interim deposits, STAR Ohio, or no-load money market mutual funds, or that its average annual size is \$100,000 or less. Additionally, inspect the certificate to the Auditor of State asserting<sup>17</sup> that the treasurer or governing board will comply and is in compliance with the provisions of Ohio Rev. Code §135.01 to §135.21.

If applicable, inspect documentation that the policy was approved by the treasurer or governing board and is on file with the Auditor of State (For AOS employees the policies and exemptions are available at S:/Final Audit PDF/Region Folder/County Folder/Client Folder/Investment Policy Folder). (We need not repeat this step every audit. Keep a copy in the permanent file, and inquire whether the government has amended the policy since the prior audit.)

Inspect the policy for the requisite signatures:

- All entities conducting investment business with the treasurer or governing board (except the Treasurer of State);
- All brokers, dealers, and financial institutions initiating transactions with the treasurer or governing board by giving advice or making investment recommendations;
- All brokers, dealers, and financial institutions executing transactions initiated by the treasurer or governing board.
- Select a representative number of investments made by the entity and determine whether the investments are in accordance with the entity's investment policy as adopted by the entity's legislative body.

Determine if the policy requires financial institutions, brokers and dealers to comply with Ohio Rev. Code Chapter 135. (There is no legal requirement to include this, but if the policy does not include this requirement, we should recommend the government amend their policy to require compliance.)

Select a representative number<sup>18</sup> or amount of investments:

- Inspect purchase documents and determine that investments were made only through members of NASD, or institutions regulated by the Superintendent of Banks, Superintendent of Savings and Loan Associations, Comptroller of Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.
- For certificates of deposit, inspect documentation that any designated payee is the treasurer or treasurer's office; and that the CDs are in the treasurer's name.

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<sup>17</sup> Not required if the portfolio for the period is composed solely of interim deposits, STAR Ohio, or no-load money market mutual funds.

<sup>18</sup> When judging "a representative number," consider focusing on investments held at year end, but also consider testing other purchases and sales during the audit period. In judging how many purchases to test, consider the volume of purchases, the control environment, the adequacy of policies, and the results of prior audits.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**Revised: SB 287, 130<sup>th</sup> GA**  
**Effective: 9/04/14**

**2-8 Compliance Requirements:** Ohio Rev. Code §135.142 (school districts), §135.14(B)(7) (other subdivisions) – Additional investments allowable for subdivisions other than counties.

**Summary of Requirements:** Ohio Compliance Supplement Step 2-6 identifies certain investments that are eligible for **interim** monies. In addition to those investments, subdivisions can invest interim monies as follows:

➤ Up to ~~twenty-five~~ forty per cent of interim moneys available for investment in either of the following [Ohio Rev. Code §135.142(A) for school districts; §135.14(B)(7) for other subdivisions]:

**Commercial paper** notes issued by an entity defined in Ohio Rev. Code §1705.01(D) (see definition below) and that has assets exceeding five hundred million dollars, to which all the following apply:

- The notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.
- The aggregate value of the notes does not exceed ten per cent of the aggregate value of the outstanding commercial paper of the issuing corporation.
- The notes mature not later than ~~one hundred eighty~~ 270 days after purchase.
- The investment in commercial paper notes of a single issuer shall not exceed in the aggregate five per cent of interim moneys available for investment at the time of purchase.

**Bankers' acceptances** of banks insured by the FDIC and to which both of the following apply:

- The obligations are eligible for purchase by the Federal Reserve System.
  - The obligations mature not later than one hundred eighty days after purchase.
- Boards of education must authorize the treasurer to invest in commercial paper or bankers' acceptances by a 2/3 majority vote. [Ohio Rev. Code §135.142(A)] (Once authorized, the authorization remains effective unless the policy changes. Therefore, we need not test this every audit. We should maintain documentation of the approval in the permanent file.) ~~Additionally, the treasurer or governing board must complete additional training. The type and amount of additional training shall be approved by the treasurer of state and may be conducted by or provided under the supervision of the treasurer of state. [Ohio Rev. Code §135.14(B)(7)]~~
- "Entity" means any of the following [Ohio Rev. Code §1705.01(D)]:
- A for profit corporation existing under the laws of this state or any other state;
  - Any of the following organizations existing under the laws of this state, the United States, or any other state:
    - A business trust or association;
    - A real estate investment trust;
    - A common law trust;

- An unincorporated business or for profit organization, including a general or limited partnership;
- A limited liability company.

Note: Some of the steps below require the same documentation / evidence auditors also use to support the *existence, valuation and classification* of investments. You can gain efficiency by combining the steps below with the substantive financial audit steps related to the aforementioned assertions.

### **Suggested Audit Procedures – Compliance (Substantive) Tests:**

1. Inspect a representative number<sup>19</sup> of dealer confirmations of the commercial paper notes purchased and determine that the entity has maintained related documentation that the: [Ohio Rev. Code §135.14(B)(7)(a)]
  - Commercial paper was rated in the highest classification by two standard rating services.
  - The commercial paper matures not later than ~~180~~270 days after purchase.
  - The investment in commercial paper notes of a single issuer does not exceed the aggregate five per cent of interim moneys available at the time of purchase.
2. Inspect dealer confirmations of the bankers' acceptances purchased and determine that the entity has maintained related documentation that the: [Ohio Rev. Code §135.14(B)(7)(b)]
  - Banks are insured by the Federal Deposit Insurance Corporation.
  - ~~Dealer confirmations should indicate if bankers' acceptances were **NOT** eligible for purchase by the Federal Reserve System. Read the confirmation to determine whether the banker's acceptance was **ineligible**. (A statement of ineligibility would indicate an **ineligible** investment, per **Ohio Rev. Code §135.142(A) for school districts or §135.14(B)(7) for other non county entities.**~~
  - The acceptances mature not later than 180 days after purchase.
3. For investments in Bankers' Acceptances and Commercial Paper Notes, inspect documentation and determine whether the additional training was received.
4. For school districts, assure the permanent file documents the resolution authorizing the treasurer to invest in commercial paper and / or bankers' acceptances.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

<sup>19</sup> When judging "a representative number," consider focusing on investments held at year end, but also consider testing other purchases and sales during the audit period. In judging how many purchases to test, consider the volume of purchases, the control environment, the adequacy of policies, and the results of prior audits.

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**2-9 Compliance Requirements:** Ohio Rev. Code §135.18 (specific collateral) and §135.181 (pooled collateral) – Security for repaying public deposits; Ohio Rev. Code §135.37 – Security for repaying county (and county hospital) public deposits; 12 CFR 330.

**Summary of Requirements:** The treasurer of a political subdivision must require the depository to provide security equal to the funds on deposit at all times. Security may consist of federal deposit insurance, surety company bonds, or pledged securities. [Ohio Rev. Code §135.18].

Depository security requirements for county (and county hospital) monies parallel the requirements of other governmental entities pursuant to Ohio Rev. Code §135.18. Ohio Rev. Code §135.37(F) expressly permits counties to follow the pool collateral requirements of Ohio Rev. Code §135.181.

### *FDIC Insurance Coverage*

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 into law, which, in part, *permanently* raised the current standard maximum FDIC deposit insurance amount to \$250,000, retroactive to January 1, 2008.

~~All funds in a “noninterest bearing transaction account” are insured in full by the Federal Deposit Insurance Corporation from December 31, 2010, through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at for at least \$250,000 available to depositors under the FDIC’s general deposit insurance rules (12 CFR 330.16).~~

~~A “noninterest bearing transaction account” means: (1) a deposit or account maintained at an insured depository institution; (i) in which interest is neither accrued nor paid; (ii) in which the depositor or account holder is permitted to make withdrawals, telephone or electronic or other media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; (iii) on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal<sup>20</sup>. A noninterest bearing transaction account also includes a trust account established by an attorney or law firm commonly known as an Interest on Lawyers Trust Accounts (“IOLTAs”) or its functional equivalent as determined by the corporation.<sup>21</sup>~~

*Depositories may pledge the following securities under the subsections of Ohio Rev. Code §135.18(B) listed below:*

(1) Bonds, notes, or other obligations of the United States; or bonds, notes, or other obligations guaranteed as to principal and interest by the United States or those for which the full faith of the United States is pledged for the payment of principal and interest thereon, by language appearing in the instrument specifically providing such guarantee or pledge and not merely by interpretation or otherwise;

(2) Bonds, notes, debentures, letters of credit, or other obligations or securities issued by any federal government agency, or instrumentality, or the export-import bank of Washington; bonds, notes, or other

<sup>20</sup> See 12 C.F.R. §330.1(r)

<sup>21</sup> ~~The definition of noninterest bearing transaction account cannot include any interest bearing accounts, NOW accounts, or money market deposit accounts except as expressly provided in 12 C.F.R. §330.16(b) with respect to certain swept funds. The exception for swept funds is applicable only in situations where funds are swept from a noninterest bearing transaction account to a noninterest bearing savings account, notably a money market deposit account (MMDA). Pursuant to 12 C.F.R. § 330.16(b), such noninterest bearing savings accounts into which funds are swept would be considered noninterest bearing transaction accounts. Apart from this exception for “reserve sweeps,” MMDAs and noninterest bearing savings accounts do not qualify as noninterest bearing transaction accounts.~~

obligations guaranteed as to principal and interest by the United States or those for which the full faith of the United States is pledged for the payment of principal and interest thereon, by interpretation or otherwise and not by language appearing in the instrument specifically providing such guarantee or pledge;

(3) Obligations of or fully insured or fully guaranteed by the United States or any federal government agency or instrumentality;

(4) Obligations partially insured or partially guaranteed by any federal agency or instrumentality;

(5) Obligations of or fully guaranteed by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, or Student Loan Marketing Association;

(6) Bonds and other obligations of this state and any county, municipal corporation, or other legally constituted taxing subdivision of another state, or an instrumentality of such public entities, if:

- The full faith and credit of the issue is pledged and,
- At the time of purchase, the security is rated in one of the two highest categories by at least one nationally recognized standard rating service

(7) Bonds and other obligations of any county, township, school district, municipal corporation, or other legally constituted taxing subdivision of this state, which is not at the time of such deposit, in default in the payment of principal or interest on any of its bonds or other obligations, for which the full faith and credit of the issuing subdivision is pledged.

(8) Bonds of other states of the United States which have not during the ten years immediately preceding the time of such deposit defaulted in payments of either interest or principal on any of their bonds;

(9) Shares of no-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) of Ohio Rev. Code §135.18 [these sections are (1) & (2), above] and repurchase agreements secured by such obligations.

(10) A surety bond issued by a corporate surety licensed by the state and authorized to issue surety bonds in this state pursuant to Ohio Rev. Code Chapter 3929 and qualified to provide surety bonds to the federal government pursuant to 96 Stat. 1047 (1982), 31 U.S.C.A. 9304.

By written notice to the treasurer, an institution designated as a public depository may designate a qualified trustee<sup>22</sup> and deposit the eligible securities required by this section with the trustee for safekeeping for the account of the treasurer (and the institution). In this case, the treasurer accepts the trustee's written receipt describing the securities which have been deposited with the trustee by the public depository. All such securities so deposited with the trustee are deemed to be pledged and deposited with the treasurer. [Ohio Rev. Code §135.18(D)].

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<sup>22</sup> All securities eligible as collateral are book-entry only and held at the Federal Reserve. The Federal Reserve Bank acts as the government's agent and holds the collateral securities in the government's name. Deposits secured by collateral held in these accounts are not subject to custodial credit risk disclosures if the government can provide evidence that pledge accounts held in the government's name are in existence at the Federal Reserve.



Any federal reserve bank<sup>23</sup> or branch located in this state or Federal Home Loan Bank is qualified to act as trustee for the safekeeping of securities.

Any institution mentioned in Ohio Rev. Code §135.03 is qualified to act as trustee for the safekeeping of securities, other than those belonging to itself, under this section.

### **Ohio Rev. Code §135.181**

In lieu of the specific pledging requirements of Ohio Rev. Code § 135.18, a public depository at its option may pledge a single pool of eligible securities to secure the repayment of all its public deposits not otherwise secured, provided that at all times the total market value of the securities so pledged is at least equal to one hundred five per cent of its uninsured public deposits to be secured by the pooled securities.

The securities described in division (B) of Ohio Rev. Code §135.18 (described above), shall be eligible as collateral, provided no such securities pledged as collateral are at any time in default as to either principal or interest.

A public depository must designate a qualified trustee (i.e., the Federal Reserve) and deposit the eligible pledged securities with that trustee for safekeeping. The depository must give written notice of the qualified trustee to any treasurer depositing public monies for which such securities are pledged. The treasurer shall accept the written receipt of the trustee describing the pool of securities so deposited by the depository. [Ohio Rev. Code §135.181(E)].

Upon request of a treasurer up to 4 times per year, a *public depository* must report: the amount of public monies deposited by the treasurer and secured and the total value based on the valuations described above, of the pool of securities pledged to secure public monies held by the depository, including those deposited by the treasurer [Ohio Rev. Code §135.181(L)].

Upon request of a treasurer up to 4 times per year, a *qualified trustee* must report the total value of the securities pool deposited with it by the depository and provide an itemized list of pooled securities. The trustee must make these reports as of the date the treasurer specifies.

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<sup>23</sup> The Federal Reserve Bank of Cleveland sometimes uses the Boston Federal Reserve Bank for safekeeping. We do not deem this arrangement to violate this provision.

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

Compare depository balances to the amount of pledged securities and other depository collateral during the audit period, noting maximum amounts on deposit at any time. Calculate (or inspect, if available, the government’s calculations) if legal security equaled or exceeded depository balances. Focus audit procedures on the most recent fiscal year end, but based on your assessment of the control environment, the nature of collateral<sup>24</sup> and other risks also consider whether you should evaluate the adequacy of collateral as of other dates during the audit when deposit or investment balances may have been materially higher, such as immediately after the receipt of tax settlements.

Inspect the financial institution’s listing of pledged securities. Select a few securities and determine if the institution pledged only eligible securities. (When determining the extent of testing, auditors should consider that we do not require a high level of assurance, so a “few” items should be sufficient. Auditors can reduce or eliminate this testing based on the assessed level of control risk\* and past experience with the financial institution. Therefore, if the government documents its review of collateral eligibility, or we have not noted eligibility problems in prior audits, we can reduce or eliminate this test.)

\* “Control risk” in this context refers to the *government’s* controls, if any, over reviewing their financial institutions’ collateral lists. The AOS has no basis for assessing a financial institution’s control risk.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

<sup>24</sup> For example, there is generally less risk that a financial institution using a collateral pool will have insufficient collateral vs. a financial institution pledging specific securities.

**Revised: SB 287, 130<sup>th</sup> GA**  
**Effective: 9/04/14**

**\*COUNTY (AND COUNTY HOSPITAL) REQUIREMENTS**

The provisions of Ohio Rev. Code Chapter 135 relating to counties (and county hospitals) are in separate sections from the provisions relating to all other subdivisions. However, in most cases the requirements are very similar.

**2-10 Compliance Requirements:** Ohio Rev. Code §135.35 and 12 CFR 370 - Eligible Investments for inactive county money (county hospitals may invest in these same securities, per Ohio Rev. Code §339.06).

**Summary of Requirements:**

- Investments must mature within 5 years from the date of settlement unless the investment matches a specific obligation or debt, and the investment advisory committee specifically approves it.
  - A county may hold investments purchased between 3/22/12 and 9/10/12 until their maturity of up to 10 years due to a temporary change in this law.
  
- The following classifications of securities and obligations are eligible for deposit or investment:
  - United States obligations or any other obligation guaranteed as to principal or interest by the United States, or any book entry, zero-coupon United States treasury security that is a direct obligation of the United States. [Ohio Rev. Code §135.35(A)(1)]
  - Stripped principal or interest obligations are not permitted. Except, Federally-issued or Federally-guaranteed stripped principal or interest obligations are permitted. [Ohio Rev. Code §135.35(A)(1)]
  - Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities must be direct issuances of federal government agencies or instrumentalities. [Ohio Rev. Code §135.35(A)(2)]
  - Time certificates of deposit<sup>25</sup> or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in Ohio Rev. Code §135.35(A)(3).

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<sup>25</sup> It is the position of the Auditor of State that Ohio Rev. Code §135.03 & §135.32 prohibit purchasing certificates of deposit (negotiable/brokered or otherwise) from a bank unless the CD is subject to inspection by the Ohio Superintendent of Financial Institutions. Ohio is part of a nationwide cooperative agreement for examining multi-state banks in which these states agreed to recognize each other's supervisory authority for banks headquartered in another state but doing business in theirs. Therefore, it is reasonable to conclude that a multi-state bank in a state subject to this agreement is subject to inspection by Ohio's Superintendent of Financial Institutions. Multi-state banks are eligible to become a public depository for Ohio's governmental entities, subject to § 135.01 to 135.21 of the Ohio Rev. Code. The bank should be registered with the Ohio Secretary of State to be an eligible public depository in Ohio. A government cannot purchase negotiable/brokered or nonnegotiable CDs unless the governing body has designated the bank as eligible to hold interim or inactive deposits. See ADAM 2002-005

- Ohio Rev. Code §135.353 also permits counties to use the Certificate of Deposit Account Registry Services (CDARS) or similar programs (one example is Star Plus) meeting Ohio Rev. Code §135.353 requirements. If a county purchases CDs for more than the FDIC limit (\$250,000). *See OCS step 2-6* with a bank participating in CDARS, Star Plus, etc, the bank or program “redeposits” the excess amounts with other institutions. Each bank accepts less than \$250,000 so that all deposits have FDIC coverage. Ohio Rev. Code §135.353 requires a county to place its deposits with an eligible depository per Ohio Rev. Code §135.32. However, institutions the county’s depository places excess deposits with are not subject to Ohio Rev. Code §135.32. For example, while the deposit must be initiated at an Ohio depository branch, the Ohio depository can purchase CDs from depositories outside of Ohio for the excess. Because all CDARS, Star Plus, etc. deposits have FDIC coverage, the collateral requirements of Ohio Rev. Code §135.18 and §135.181 do not apply. (That is, these are *insured* deposits for GASB 40 purposes, Appendix E-2 of the OCS Implementation Guide.)
  - Any CD’s purchased by a broker must be held in the name of the government. Also, the broker cannot be in possession of cash at any time. If we believe a broker has held cash for any length of time, AOS auditors should refer the matter to the Center for Audit Excellence and AOS Legal division for further evaluation. A way to verify compliance is to request monthly statements provided by the public depository located in Ohio. Ohio Rev. Code §135.144(A)(5) requires the initial public depository to provide public offices with a monthly account statement that includes the amount of its funds deposited and held at each bank, savings bank, or savings and loan association for which the public depository acts as a custodian pursuant to Ohio Rev. Code §135.144. If a public office does not have these statements, it may indicate that the money is being held by a broker-dealer in violation of Ohio Rev. Code §135.144.
- Bonds and other obligations of this state or the political subdivisions of this state ~~provided that such political subdivisions are located wholly or partly within the same county as the investing authority.~~ [Ohio Rev. Code §135.35(A)(4)]
- Ohio Rev. Code § 135.35 (C) allows the purchase of municipal debt of the State of Ohio or **any** political subdivision of the State.
- No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service or consisting exclusively of obligations described in Ohio Rev. Code §135.35143(A)(1), or (2) or (6) and (see above), or repurchase agreements secured by such obligations, if purchased from eligible institutions mentioned in Ohio Rev. Code §135.32 (generally, Ohio banks and national banks authorized to do business in Ohio. [Ohio Rev. Code §135.35(A)(5)]
- United States treasury bills, notes, bonds, or any other obligations or securities issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States, Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality or ~~corporate~~ commercial paper rated in the highest category by two standard ratings ~~agencies~~services (i.e. securities Ohio Rev. Code §135.143(A)(1), (2) or (6) permits);
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality [~~Ohio Rev. Code §135.35(A)(2)~~]; ~~Commercial paper issued by any~~

~~corporation incorporated under the laws of the United States or a state, which notes are rated at the time of purchase in the two highest categories by two nationally recognized rating agencies [Ohio Rev. Code §135.35(A)(10)]\*~~

~~\* Note: Ohio Rev. Code §135.35(A)(5) and (A)(10) are similar. Ohio Rev. Code § (A)(5) permits buying money market mutual funds which invest in repurchase agreements, but does not authorize commercial paper, and requires purchasing the fund through a bank. Ohio Rev. Code § (A)(10) permits buying money market mutual funds which invest in commercial paper but does not authorize repurchase agreements. Ohio Rev. Code § (A)(10) also permits purchasing a mutual fund through a bank or through a broker dealer. A county can follow either or both sections.~~

- The Ohio Subdivision's Fund (STAR Ohio) as provided in Ohio Rev. Code §135.45. [Ohio Rev. Code §135.35(A)(6)]
- Securities lending agreements with any eligible institution mentioned in Ohio Rev. Code §135.32 that is a member of the Federal Reserve System or Federal Home Loan Bank, or with any recognized U.S. government securities dealer,<sup>26</sup> under the terms of which agreements in the investing authority lends securities and the eligible institution agrees to simultaneously exchange similar securities described in Section 135.35(A)(1) or (2) or cash or both securities and cash, equal value for equal value. [Ohio Rev. Code §135.35(A)(7)]
- Up to twenty-five per cent of the county's total average portfolio in either of the following [Ohio Rev. Code §135.35(A)(8)]:

**Commercial paper** issued by an "entity" that is defined in division (D) of Ohio Rev. Code §1705.01 (see definition below) and that has assets exceeding five hundred million dollars, to which notes all of the following apply:

- The aggregate value of the notes does not exceed ten per cent of the aggregate value of the outstanding commercial paper of the issuing corporation.
- The notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.
- The notes mature not later than 270 days after purchase.

**Bankers' acceptances** of banks that are insured by the federal deposit insurance corporation and to which both of the following apply:

- The obligations are eligible for purchase by the Federal Reserve System.
- The obligations mature not later than one hundred eighty days after purchase.

No investment shall be made in commercial paper or bankers' acceptances unless the treasurer or governing board has completed additional training for making those investments. The type and amount of

<sup>26</sup> Ohio Rev. Code §135.35(J)(I) defines these security dealers as being "members of the ~~national association of securities dealers (NASD)~~ financial industry regulatory authority (FINRA), through a bank, savings bank, or savings and loan association regulated by the superintendent of financial institutions, or through an institution regulated by the comptroller of the currency, federal deposit insurance corporation (FDIC), or board of governors of the federal reserve system."

additional training shall be approved by the auditor of state and may be conducted by or provided under the supervision of the auditor of state.

“Entity” means any of the following [Ohio Rev. Code §1705.01(D)]:

- A for profit corporation existing under the laws of this state or any other state;
  - Any of the following organizations existing under the laws of this state, the United States, or any other state:
    - i. A business trust or association;
    - ii. A real estate investment trust;
    - iii. A common law trust;
    - iv. An unincorporated business or for profit organization, including a general or limited partnership;
    - v. A limited liability company.
- Per Ohio Rev. Code §135.35(A)(9), up to fifteen per cent of the county’s total average portfolio in notes issued by corporations incorporated under U.S. law and that operate within the United States, or by depository institutions doing business under U.S. authority or any state’s authority, and that operate within the United States, provided both of the following apply:
- The notes are rated in one of the two highest categories by at least two nationally recognized standard rating services at the time of purchase;
  - The notes mature not later than two years after purchase.
- Per Ohio Rev. Code §135.35(A)(~~4+10~~) up to 1% of its portfolio in the debt of foreign nations, if:
- Rated at the time of purchase in the three highest categories by two nationally recognized standard rating services
  - The U.S. government recognizes it diplomatically.<sup>27</sup>
  - All interest and principal shall be denominated and payable in United States funds.
  - The foreign government guarantees the debt.
  - Investments must mature within 5 years from the date of settlement ~~unless the investment matches a specific obligation or debt, and the investment advisory committee specifically approves it.~~

Note: A county may hold investments purchased between 3/22/12 and 9/10/12 until their maturity of up to 10 years (this is because in 2012 HB 225 was enacted and then repealed months later).

➤ The investing authority may also enter into a written repurchase agreement with any eligible institution mentioned in Ohio Rev. Code §135.32 or any eligible dealer pursuant to Ohio Rev. Code §135.35(J), under the terms of which agreement the investing authority purchases, and the eligible institution or dealer agrees unconditionally to repurchase any of the securities listed in divisions (B)(1) to (5) of §135.35, except letters of credit described in division §135.18(B)(2) are not permitted for repurchase agreements.<sup>28</sup> The market value of securities subject to an overnight repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%. A written repurchase agreement shall not exceed 30 days and the value of the securities must exceed the principal value by at least 2% and be marked to market daily. [Ohio Rev. Code §135.35(D)]

<sup>27</sup> As best as we can determine, the United States does not recognize the following nations: Cuba, Bhutan, Iran, North Korea, Sudan, Somalia, and the Republic of China (Taiwan).

<sup>28</sup> Ohio Compliance Supplement Step 2-9 summarizes Ohio Rev. Code §135.18(B)(1) to (10).

- All securities purchased pursuant to a repurchase agreement are to be delivered into the custody of the investing authority or the qualified custodian of the investing authority or an agent designated by the investing authority<sup>29</sup>. [Ohio Rev. Code §135.35(D)]
  - Repurchase agreements with an eligible securities dealer must be transacted on a delivery versus payment basis.
  - Repurchase agreements must be in writing. For each transaction, the participating institution must provide:
    1. the par value of the securities;
    2. the type, rate, and maturity date of the securities;
    3. a numerical identifier (e.g., a CUSIP number), generally accepted in the industry, designating the securities.
  - Securities which are the subject of a repurchase agreement may be delivered to the treasurer or held in trust by the participating institution if it is a designated depository of the subdivision for the current period of designation. [Ohio Rev. Code §135.35(I)].
- Agreements by which the investing authority agrees to sell securities owned by the county to a purchaser and agrees with that purchaser to unconditionally repurchase those securities (*Reverse Repos*) are prohibited.
- Investment in derivatives is prohibited. A *derivative*<sup>30</sup> is a financial instrument or contract or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself. Any security, obligation, trust account, or other instrument that is created from an issue of the United States Treasury or is created from an obligation of a federal agency or instrumentality or is created from both is considered a derivative.
- An eligible investment described in Ohio Rev. Code §135.14 with a variable interest rate payment or single interest payment, based upon a single index comprised of other eligible investments provided for in division (A)(1) or (2) of Section 135.35, is **not** a derivative, if the variable rate investment has a maximum maturity of 2 years. [Ohio Rev. Code §135.14(C)]
- 1999 Op. Atty. Gen. No. 1999-026 deemed collateralized mortgage obligations to be derivatives.
- A treasury inflation-protected security (TIPS) shall not be considered a derivative for counties, provided the security matures not later than five years after purchase (Ohio Rev. Code §135.35(B)). HB 225, effective 3/22/12 and then repealed 9/10/12, temporarily increased this to ten years (Ohio Rev. Code § 135.35(C)).

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<sup>29</sup> Counterparties (e.g. banks) accomplish this by maintaining a separate “customer” account at the Federal Reserve designated as a customer account. (For purposes of GASB 40, we currently believe securities held in a customer account would not be exposed to custodial risk.)

<sup>30</sup> Note: The Ohio Rev. Code still uses the definition of a derivative taken from GASB Technical Bulletin 94-1. GASB Statement No. 53, effective for periods beginning after June 15, 2009, includes swaps as derivatives. So, for legal compliance purposes, governments must follow the Ohio Rev. Code definition. For financial reporting governments must follow the GASB definition. For example, an interest rate swap and energy futures contracts (which are allowable under Ohio Rev. Code § 9.835 to mitigate price fluctuations, and are not intended as investments) would be subject to GASB Statement No. 53 derivative measurement and disclosure requirements, but are **not** illegal.

- Per Ohio Rev. Code §135.35(E): No investing authority can invest under §135.35, unless the investment authority reasonably expects that the investment can be held until its maturity. The investing authority's written investment policy should specify the conditions under which an investment may be redeemed or sold prior to maturity.
- Per Ohio Rev. Code §135.35(F), no investing authority may pay a county's inactive moneys, or moneys of a county library and local government support fund (also known as: "county public library funds"), into an investment pool *other than*:
  - the Ohio Subdivision's Fund (STAR Ohio) pursuant to Ohio Rev. Code §135.35(A)(6)
  - a fund created solely for the purpose of acquiring, constructing, owning, leasing, or operating municipal utilities pursuant to Ohio Rev. Code §715.02 or Ohio Const. Art XVIII, Section 4.
- A county may not leverage its investments. (That is, a county cannot use its current investments as collateral to purchase other investments.) [Ohio Rev. Code §135.35(G)]
- A county cannot issue taxable notes for arbitrage purposes. [Ohio Rev. Code §135.35(G)] (That is, a county cannot invest the proceeds of taxable notes hoping to earn a higher return on the proceeds than the interest rate on the TAN.)
- A county cannot contract to sell securities it does not own. (These are called short sales, where a county purchases the rights to a security solely on the speculation that its price will decline.) [Ohio Rev. Code §135.35(G)]
- Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee. [Ohio Rev. Code §135.35(J)(2)]

### **Suggested Audit Procedures – Compliance (Substantive) Tests:**

Note: Some of the steps below require the same documentation / evidence auditors also use to support the *existence, valuation and classification* of investments. You can gain efficiency by combining the steps below with the substantive steps related to the aforementioned assertions.

Select a representative number<sup>31</sup> of investments and:

1. Read investment dealer confirmations\* to determine if the investment is of a type authorized.

\* Note: Dealer confirmations are suitable evidence supporting the details (e.g. part of the valuation [cost] and occurrence assertions) of an investment at the time of purchase. However, it provides no evidence the county still owned the investment as of its fiscal year end. Auditors should obtain other evidence to support existence at year end. The audit program should include suitable existence steps.

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<sup>31</sup> When judging "a representative number," consider focusing on investments held at year end, but also consider testing other purchases and sales during the audit period. In judging how many purchases to test, consider the volume of purchases, the control environment, the adequacy of policies, and the results of prior audits.



2. Determine that the investments mature within the prescribed limits (generally no later than 5 years, or *other* periods for repurchase agreements [30 days], bankers' acceptances and commercial paper [180 or 270 days, respectively, from the purchase date], or securities matched to debt maturities, etc.)
3. Inspect documentation supporting repurchase agreements and determine that:
  - a. The market values of securities exceed the principal values of securities subject to the overnight repurchase agreement by 2%. (Note: The risk of non-compliance increases when banks merge.)
  - b. A term repurchase agreement did not exceed 30 days and the values of the securities were marked to market daily.
  - c. Repurchase agreements were in writing, including the par value of the securities; the type, rate, and maturity date of the securities; and a numerical identifier.
4. For investments in Bankers' Acceptances and Commercial Paper Notes, inspect documentation and determine whether the additional training was received.
5. Read the prospectus for money market mutual funds with which the government has significant investments. Determine whether the prospectus limits investments to those authorized under Ohio Rev. Code §135.35(A)(1) & (A)(2) or 135.143(A)(1), (2) or (6).
6. Determine whether mutual funds, commercial paper, and any notes of U.S. corporations have the necessary credit rating issued by national ratings agencies (such as that S&P, Moody's or Fitch issues).
7. Inspect dealer confirmations of the bankers' acceptances purchased and determine that the county has maintained related documentation that the:
  - a. Banks are insured by the Federal Deposit Insurance Corporation
  - b. Dealer confirmations should indicate if banker's acceptances were **NOT** eligible for purchase by the Federal Reserve System. Read the confirmation to determine whether the banker's acceptance was **ineligible**. (A statement of ineligibility would indicate an **ineligible** investment, per Ohio Rev. Code §135.35(A)(8)(b)(i).)
8. Scan the county's computation of the composition of its investments. Determine if the portfolio contains ≤:
  - a. 1% foreign national securities
  - b. 15% debt of U.S. corporations
  - c. 25% commercial paper + bankers' acceptances
9. Scan investment records to determine whether the county is selling securities prior to maturity. If a significant number or amount of premature sales occurred:
  - a. Determine whether the premature sales complied with the county's policy regarding early redemption. (We believe the policy should generally require sufficient cash flow planning to support

that the county had sufficient cash at the time or purchase so that a premature sale would not be needed to meet emergency cash flow needs. Forced premature sales often result in losses.)

b. Review the county’s cash flow forecasts supporting that the county had reasonable support at the time or purchase that it could hold the security to maturity. If there is inadequate cash flow planning necessitating premature sales, cite this section and recommend the government improve its cash flow forecasting. The finding should also describe any losses the government suffered from these sales.

Note: The steps above should normally be sufficient for most counties. Because we believe the risk of counties engaging in certain prohibited activities such as leveraging, short sales or arbitrage violations is low, there are no steps included to test these requirements. You should scan the other requirements in this step, and based on your knowledge of the county’s investing activities, investigate them if evidence suggests the county may have materially violated these requirements.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**Revised: SB 287, 130<sup>th</sup> GA**  
**Effective: 9/04/14**

**2-11 Compliance Requirements:** Ohio Rev. Code §135.35 – Other County and County Hospital [Ohio Rev. Code §339.06] Requirements.

**Summary of Requirements:**

- Investments or deposits under Ohio Rev. Code §135.35 cannot be made unless a written investment policy approved by the investing authority (for hospitals, the authority is the county hospital board, per Ohio Rev. Code §339.06) is on file with the Auditor of State. If a written investment policy is not filed with the Auditor of State, the investing authority may invest only in certificates of deposit, savings or deposit accounts, STAR Ohio, or no-load money market mutual funds. [Ohio Rev. Code §135.35(K)(1)&(2)]
- The investment policy must be signed by:
  - All entities conducting investment business with the investing authority (except the Treasurer of State);
  - All brokers, dealers, and financial institutions, described in Ohio Rev. Code §135.35(J)(1), initiating transactions with the investment authority by giving advice or making investment recommendations;
  - All brokers, dealers, and financial institutions, described in Section 135.35(J)(1), executing transactions initiated by the investing authority.
- The investing authority is required to inventory all obligations and securities. The inventory includes a description of each obligation or security, including type, cost, par value, maturity date, settlement, date, and any coupon rate. [Ohio Rev. Code §135.35(L)(1)]
- The investing authority is required to keep a complete record of all purchases and sales of the obligations and securities. [Ohio Rev. Code §135.35(L)(2)]
- The investing authority is required to keep a monthly portfolio report and issue a copy of the monthly report describing its investments to the county investment advisory committee. This report indicates: [Ohio Rev. Code §135.35(L)(3)]
  - the current inventory of all obligations and securities,
  - all transactions during the month that affected the inventory,
  - any income received from the obligations and securities, and
  - any investment expenses paid.
  - The names of any persons executing transactions on behalf of the investing authority.

- The inventory and the monthly portfolio report are public records and must be filed with the board of county commissioners and the Treasurer of the State of Ohio. [Ohio Rev. Code §135.35(L)(5)]
- Any securities, certificates of deposit, deposit accounts, or any other documents evidencing deposits or investments must be issued in the name of the county with the county treasurer or investing authority as the designated payee. [Ohio Rev. Code §135.35(H)].
- If any such deposits or investments are registerable as to principal and/or interest, they must be registered in the name of the treasurer. [Ohio Rev. Code §135.35(H)].
- The investing authority is responsible for safekeeping documents evidencing a deposit or investment. Securities and documents confirming the purchase of securities under any repurchase agreement may be deposited with a qualified trustee. [Ohio Rev. Code §135.35(I)].
- Where securities, including securities which are the subject of a repurchase agreement, have been delivered to a qualified trustee for safekeeping, the qualified trustee must report on request to the treasurer, governing board, Auditor of State, or authorized IPA as to the identity, market value, and location of the document evidencing each security.
- All investments in securities except investments described in division (A) (5), (6) and (4211) [no load money market mutual funds and certain repos] are required to be made through
  - members of the ~~National Association of Securities Dealers, Inc.~~ Financial Industry Regulatory Authority (FINRA), or
  - institutions regulated by the Superintendent of Banks, Superintendent of Savings and Loan Associations, Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System. [Ohio Rev. Code §135.35(J)(1)].
- Payment for ~~securities investments~~ may be made only upon delivery of the securities to the treasurer, investing authority, or qualified trustee, or, if in book-entry form, only upon confirmation of delivery to such parties. [Ohio Rev. Code §135.35 (J)(2)]

#### **Suggested Audit Procedures – Compliance (Substantive) Tests:**

Read the county's investment policy for the period. (Investment policies have been scanned and are posted on S:\Final Audit PDF. Click on the Region/County/Entity name.)

Inspect documentation that it was filed with the Auditor of State (if posted in the above directory, the policy was filed with AOS).

Inspect the policy for the requisite signatures:

- All entities conducting investment business with the county (except the Treasurer of State);
- All brokers, dealers, and financial institutions initiating transactions with the county by giving advice or making investment recommendations;

- All brokers, dealers, and financial institutions executing transactions initiated by the county.
- Select a representative number of investments made by the entity and determine whether the investments are in accordance with the county's investment policy as adopted by the county's legislative body.

Determine if the policy requires financial institutions, brokers and dealers to comply with Ohio Rev. Code Chapter 135. (There is no legal requirement to include this, but if the policy does not include this requirement, we should recommend the government amend their policy to require compliance.)

If there is no written investment policy filed with the Auditor of State, scan the county's investment portfolio for the period to determine that it is composed solely of certificates of deposit, savings or deposit accounts, STAR Ohio, or no-load money market mutual funds.

Select a representative number<sup>32</sup> or amount of investments and:

- Inspect documentation that any designated payee is the treasurer or treasurer's office; and that registerable securities are registered in the treasurer's name.
- Inspect purchase documents and determine that investments were made through appropriate parties: members of the National Association of Securities Dealers, Inc., or institutions regulated by the Superintendent of Banks, Superintendent of Savings and Loan Associations, Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System. Compare purchase dates and payments and determine that payment for securities was made upon delivery of the securities or upon receipt of confirmation of transfer from the custodian. Any CD's purchased by a broker must be held in the name of the government. Also, the broker cannot be in possession of cash at any time. If we believe a broker has held cash for any length of time, AOS auditors should refer the matter to the Center for Audit Excellence and AOS Legal division for further evaluation. A way to verify compliance is to request monthly statements provided by the public depository located in Ohio. Ohio Rev. Code §135.144(A)(5) requires the initial public depository to provide public offices with a monthly account statement that includes the amount of its funds deposited and held at each bank, savings bank, or savings and loan association for which the public depository acts as a custodian pursuant to Ohio Rev. Code §135.144. If a public office does not have these statements, it may indicate that the money is being held by a broker-dealer in violation of Ohio Rev. Code §135.144.
- Inspect copies of the investing authority's (i.e. treasurer's) inventory documents: scan the documents and determine if it appears the inventory includes a description of each obligation or security, including type, cost, par value, maturity date, settlement, date, and any coupon rate; the inventory reflects a complete record of all purchases and sales of the obligations and securities; and that the county is keeping a monthly portfolio report and is issuing a quarterly investment report describing its investments to the county investment advisory committee.

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

<sup>32</sup> When judging "a representative number," consider focusing on investments held at year end, but also consider testing other purchases and sales during the audit period. In judging how many purchases to test, consider the volume of purchases, the control environment, the adequacy of policies, and the results of prior audits.



**COMMUNITY SCHOOLS**

**2-12 Compliance Requirements:** Pursuant to Ohio Rev. Code §3314.04, Ohio Rev. Code Chapter 135 does not apply to community schools. However, other entities may impose restrictions on investments, collateral, etc. Such entities could be grantors, creditors, the sponsor, board policy, etc. Auditors should identify and list any applicable requirements below:

*[Insert applicable depository and investment requirements.]*

**Suggested Audit Procedures – Compliance (Substantive) Tests**

*[Insert applicable audit procedures. See other OCS Sections for example audit procedures.]*

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**OTHER LAWS AND REGULATION  
COMMUNITY SCHOOLS**

**2-13 Compliance Requirement:** Ohio Rev. Code §3314.02, §3314.023, §3314.03, §3314.07, §3314.072, §3314.073 Sponsor monitoring of community schools

**Summary of Requirement:**

- The sponsor may contract with the school to receive 3% or less of the amount *the State pays to a school annually*, solely for the costs of its oversight and monitoring activities.<sup>33</sup> In other words, the total amount of such payments for oversight and monitoring of the school shall not exceed 3% of the total amount of payments for *operating expenses that the school receives from the State*<sup>34</sup>. [§3314.03(C)]
- The contract between the sponsor and the school must require the sponsor to monitor the following [§3314.03(D)]:
  - Compliance with laws the contract specifies
  - At least annually, monitor and evaluate the academic and fiscal performance and the organization and operation of the community school
  - Report the results of the preceding evaluation to ODE and to the students' parents.
  - Provide technical assistance to the school in complying with applicable laws and terms of the contract;
  - Intervene in the school's operation to correct problems in the school's overall performance,
  - Declare the school to be on probationary status pursuant to §3314.073 of the Revised Code,
  - Suspend the operation of the school pursuant to §3314.072 of the Revised Code,
  - Terminate the contract of the school pursuant to §3314.07 of the Revised Code,
  - Have in place a plan of action to be undertaken in the event the community school experiences financial difficulties or closes prior to the end of a school year.
- Ohio Rev. Code § 3314.023 requires that in order to provide monitoring and technical assistance, a representative of the sponsor of a community school shall meet with the governing authority or treasurer of the school and shall review the financial and enrollment records of the school at least once every month.

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Examine the contract between the school and the sponsor. Determine if it provides payment to the sponsor for monitoring activities.

- Trace actual payments to the sponsor to the accounting records to determine whether they were ≤ 3% of the school's State assistance (or met the terms of the contract of the sponsor provides additional services).

<sup>33</sup> A sponsor can earn more than 3% if it provides additional services beyond sponsorship. A contract should specify these additional services, and should differentiate them from the services required of a sponsor. Effective 3/30/06, community schools cannot sponsor other community schools [Ohio Rev. Code §3314.02(C)(1)(f)].

<sup>34</sup> AOS has determined that these monies would include Full-Time Equivalency (FTE is explained in step 1-27), State grant, and Federal grant monies. *Grant monies that are restricted from general operations (such as capital grants or grants for limited operation programs like special education) should be excluded from calculations as these monies cannot be used for general operating expenses.*



Inquire regarding the nature and extent of the sponsor’s monitoring activities.

- Examine minutes, correspondence, reports or other evidence supporting that the sponsor fulfilled its monitoring duties described above.
- Read the sponsor’s annual report to ODE. Based on other audit procedures, judge whether that report suggests the sponsor is diligent in its monitoring and is frank in its reporting to ODE.<sup>35</sup>

If based on other audit procedures, the school is experiencing financial or performance problems, judge whether the sponsor is taking the actions the Ohio Rev. Code prescribes above (e.g., declaring the school in probationary status, preparing an action plan to address financial difficulties.)

Assess whether the sponsor’s overall monitoring generally fulfills the requirements above. Report significant noncompliance as necessary.

<p><b>Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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<sup>35</sup> Staff should not spend significant time reviewing this report. We are not opining or providing any assurance on it. Consider tracing a “handful” of key financial amounts to current or prior audited statements or to accounting records we used in the audits. Read key passages to determine whether they are generally consistent with your understanding. If we find material misrepresentations in the report to ODE, we can report this as noncompliance by the sponsor. Our noncompliance finding should avoid imprecise statements such as “The sponsor’s report was inaccurate.” Instead, quote statements or amounts from the sponsor’s report compared to quotes or amounts we obtained from other sources. List our source in the finding.

**COURTS**

**2-14 Compliance Requirement:** Ohio Rev. Code §2335.25 - Cashbook of County costs; Ohio Rev. Code §1901.31 – Municipal court records; Ohio Rev. Code §1905.21 – Disposition of fines and other moneys for mayor’s court

**Summary of Requirement:** Each clerk of courts must maintain a journal, cashbook, listing of all receipts and disbursements, or account for all fines, forfeitures, fees, and costs collected.

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note:** Due to the large volume of over the counter cash receipts and the complexity of statutory fines and fees, the risk of noncompliance in courts is inherently higher. In assessing the risk of noncompliance, auditors should consider whether courts have historically demonstrated effective internal controls and compliance with applicable requirements. Additionally, adequate training of court personnel, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with court requirements.

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

1. Determine if a cashbook or similar listing of cash receipts and disbursements is maintained. (Note: We will normally know this from performing financially-related audit procedures.)

**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

## MUNICIPAL

**MOVED TO CHAPTER 1****2-15 Compliance Requirement:** Ohio Rev. Code § 5727**Summary of Requirement: Kilowatt-hour tax (kWh tax)**

~~Municipal (Government) electric systems must assess a monthly kilowatt hour (kWh) tax on end users. This tax is assessed at a variable rate that decreases as kilowatt hour usage increases on the meters of end users (the last meter used to measure the kWh distributed). [Ohio Rev. Code §5727.81(A)]~~

~~Ohio Rev. Code §5727.82(A)(3) permits municipal electric communities to retain in their general fund the taxes collected from customers served inside their city or village limits (including taxes self-assessing customers pay, per §5727.81(C)(2)).~~

~~Note: This legislation did not change the constitutional rule\* that municipal electric systems can sell no more than one-third of electricity outside city or village limits.~~

~~Municipal electric systems must file a monthly report and remit to the Tax Commissioner,<sup>36</sup> by the 20<sup>th</sup> of the next month, taxes collected from any distribution customers served outside their city or village limits. Even if a municipal electric system has no sales outside of its community limits, a monthly report must be filed. [Ohio Rev. Code §5727.82(A)(1) & (A)(3)]~~

~~A self-assessing option exists for large users consuming more than 45 million kWh annually. This self-assessing customer must annually register with the Department of Taxation and pay an annual fee to the State. A self-assessing customer located inside a municipal electric community's limits must remit any kWh tax directly to the community. [Ohio Rev. Code §5727.81(C)(2)]~~

~~Every electric system liable for the kWh tax must keep complete and accurate records of all electric distributions and other records as required by the Tax Commissioner. The records must be preserved for four years after the return for the taxes for which the records pertain is due or filed, whichever is later, and be available for inspection. [Ohio Rev. Code §5727.92]~~

~~Note: AOS Bulletin 2001-011 explains these requirements in more detail. Auditors should familiarize themselves with this Bulletin before testing this requirement.~~

~~\* Per Ohio Constitution, Article 18, §6: "Any municipality, owning or operating a public utility for the purpose of supplying the service or product thereof to the municipality or its inhabitants, may also sell and deliver to others any transportation service of such utility and the surplus product of any other utility in an amount not exceeding in either case fifty per cent of the total service or product supplied by such utility within the municipality, provided that such fifty per cent limitation shall not apply to the sale of water or sewage services." (Note: 50% of the total supplied within the municipality = 1/3 of the total supply.)~~

**Suggested Audit Procedures – Compliance (Substantive) Tests:**

- ~~1. Inquire with management if they are aware of and comply with this law.~~
- ~~2. Inquire with management if they have received any correspondence from an oversight agency~~

<sup>36</sup> Governments must pay the tax to the Tax Commissioner, unless required to remit the taxes via electronic funds transfer to the Treasurer of State per Ohio Rev. Code §5727.83.

regarding compliance or noncompliance with this law. If so, obtain and review correspondence to determine if a material penalty exists.

~~**Audit implications (the indirect and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**~~

**CONTRACTS AND EXPENDITURES  
STATUTORY MUNICIPALITIES**

**2-1516 Compliance Requirement:** Ohio Rev. Code § 117.16 (A); 723.52 – Force accounts – [Certain] Municipal Corporations [Cities\ Villages]. *This statute does not apply to a charter city or charter village pursuant to Ohio Rev. Code § 723.53.*

**Summary of Requirements:****AOS Force Account Project Assessment Form (See note below for Ohio Department of Transportation Projects)**

A director of public service in a city, or the legislative authority of a village, is required to estimate the costs of any “contract” for the construction, reconstruction, widening, resurfacing, or repair of a street or other public way using the Auditor of State’s force account project assessment form. *Note: the use of this form is required for contracted work pursuant to Ohio Rev Code § 723.52 and for force account projects pursuant to Ohio Rev. Code § 117.16 (A).*

The Auditor of State’s prescribed form [required by Ohio Rev. Code § 117.16(A)] for this purpose can be found on our website at the following link:

<https://ohioauditor.gov/references/development/ElectronicForceAccountProjectAssessmentForm.xls>

Auditor of State Bulletin 2003-003 states an entity may use certain “safe harbor” percentages in computing its estimated costs; if the entity used these safe harbors, auditor of state auditors may accept them without further analysis. The entity may develop its own percentages for the add-ons for labor fringes and overhead costs, and materials overhead costs; the entity should present documentation to the auditor to justify these self-computed percentage add-ons.

**Joint Projects(See note below for Ohio Department of Transportation Projects)**

Joint projects undertaken by 2 or more of the affected entities require that the higher force account limits of the participating parties be applied [Ohio Rev. Code §117.161]. Participating entities shall not aggregate their respective limits, and the share of each entity shall not exceed its respective force account limit. Calculating the proper project force account limits and the share thereof to each participating party should be memorialized in the contracts or other agreements between the parties. One of the participating entities shall complete the force account project form prior to proceeding by force account. An entity shall not proceed with a joint force account project if any one of them is subject to reduced force account limits under Ohio Rev. Code § 117.16(C) or (D).

**Bid Specifications(See note below for Ohio Department of Transportation Projects)**

If the city or village has an engineer or someone performing the duties and functions of an engineer, then that person may develop the estimates.

When the estimated cost of the total project, including labor, exceeds \$30,000, the city or village must invite and receive competitive bids from private contractors for completing the work. However, force accounts **may** be used if the city or village rejects all bids. The force account work must be performed in compliance with the plans and specifications upon which the private contractor bids were based.<sup>37</sup>

<sup>37</sup> Occasionally, change orders may be necessary for force account projects. Change orders may be made for overruns in actual construction as long as: (1) the original estimate was made in good faith and (2) the change order request was for a legitimate unforeseen issue. Change orders to force account projects may constitute noncompliance if, however, estimates were intentionally low-balled to arrive under the bidding limits (e.g., not

The terms “construction, reconstruction, widening, resurfacing, or repair of a street or other public way” are not defined in this Ohio Rev. Code section. The city or village’s legal counsel or engineer should define these terms for the city or village. The Auditor of State will accept those definitions unless they are palpably and manifestly arbitrary or incorrect. *If the entity’s legal counsel, and/or engineer, as appropriate, did not define the indicated terms for the entity, indicate the same in your draft report. Consult with CFAE and the AOS’s Legal department concerning any issues involving a potential finding or citation.*

*Note: The following clarifies how all entity types subject to force account limits should measure these limits for fractions of miles, excerpted from Auditor of State Audit Bulletin 2007-001:*

“A city must bid a project involving construction or reconstruction of a road if it exceeds \$30,000 per mile. However, it is unclear whether the limit for a 1.5 mile project would be \$45,000 (\$30,000 for the first mile, \$15,000 for the partial second mile), or \$60,000 (\$30,000 for each mile – full or partial – of the project). We determined that it was appropriate to consider the legislative intent separately for projects under one mile and for projects exceeding one mile.

**For projects exceeding one mile**, we determined that the intent of these statutes was to apply the limits proportionally for partial miles. In other words, for the example of the city cited above, the applicable force account limit would be \$45,000.

**For projects less than a mile**, the interpretation above would cause problems. In the example of a city commencing a small road repair project of one-tenth of a mile, a proportional limit would require the county to bid the project if it exceeded \$3,000 (one tenth of the \$30,000 per mile limit). We did not believe that this was the result intended by the legislature, so for projects of less than a mile, the entire per mile limit (in the case of the county in our example, \$30,000) will apply. In other words, any project that is less than a mile (regardless of distance) is to be treated as if it were a mile and subjected to the entity’s corresponding monetary limit.”

*Note: The following applies to Ohio Department Of Transportation Projects*

**Force Account Limits (Ohio Rev. Code § 5517.02)**

The legislative changes in House Bill 51 increased the statutory limits for ODOT force account projects to \$30,000 per mile of highway and \$60,000 for any traffic control signal or any other single project. The changes also require the ODOT Director to increase these limits on the first day of July of every odd-numbered year beginning in 2015 by an amount to not exceed the lesser of three per cent or the percentage increase in ODOT’s construction cost index, as annualized and totaled for the two prior calendar years. The Director shall publish the applicable amounts on ODOT’s website.

**Work Exempt from Competitive Bidding/Force Account Requirements (Ohio Rev. Code § 5517.021)**

Certain work that may be undertaken by ODOT that does not require competitive bidding:

- Replace any single span bridge in its substantial entirety or widen any single span bridge,

estimating the cost of labor or evidence that the entity knew from previous experience that a minimum amount of material would be required to complete a project but was not included in the original force account project estimate or was included at clearly insufficient amounts). Auditors should use professional skepticism when auditing force account project change orders and consult with AOS Legal Division or CFAE as needed.

including necessary modifications to accommodate widening the existing substructure and wing walls. The deck area of the new or widened bridge may not exceed 700 square feet as measured around the outside perimeter of the deck.

- Replace the bearing, beams, and deck of any bridge on that bridge's existing foundation if the deck area of the rehabilitated structure does not exceed 800 square feet.
- Construct or replace any single cell or multi-cell culvert whose total waterway opening does not exceed 52 square feet.
- Pave or patch an asphalt surface if the operation does not exceed 120 tons of asphalt per lane-mile of roadway length. The department may not perform a continuous resurfacing operation under this section if the cost of work exceeds the amounts established in R.C. Section 5517.02.
- Approach roadway work, extending not more than 150 feet as measured from the back side of the bridge abutment wall or outside the edge of the culvert, as applicable. The length of the approach guardrail shall be in accordance with ODOT's design requirements and shall not be included in the approach work size limitation.

These projects are not subject to the force account requirements of Ohio Rev. Code § 117.16, do not require an estimate, and are exempt from audit for force account purposes except to determine compliance with applicable size or tonnage restrictions.

#### **Force Account Assessment Forms (Ohio Rev. Code § 117.16)**

Ohio Rev. Code § 117.16 requires that, before undertaking a project by force account, a public entity must estimate the cost of the project using a form approved by the Auditor of State. With projects constructed by or in conjunction with ODOT, an estimate may be prepared using the Department's automated system (currently the Enterprise Information Management System (EIMS), which replaced the Transportation Management System (TMS), effective June 16, 2014) or other internal standardized forms. Such estimates are acceptable in lieu of the Auditor of State's force account project assessment form provided all the necessary elements of an estimate, as required by Ohio Rev. Code § 117.16, are included. However, whether prepared using the AOS form, the electronic ODOT system, or another standard ODOT form, an estimate is required to be completed and documentation supporting the estimate should be retained for ALL projects, unless specifically exempted by R.C.. If the total estimated cost exceeds the statutory limits defined in R.C., the project must be competitively bid.

**Ohio Attorney General Opinion 2008-007**<sup>38</sup> briefly states:

- Completing the Auditor of State's force account project assessment form estimating the cost of the work constitutes commencement of the project for purposes of determining which force account limit is in effect and applicable to the project;
- The Auditor of State is authorized to require the use of a "safe harbor rate" for the cost of overhead or the justification of a different rate in estimating the cost of road, bridge and culvert work;
- A public office may acquire material and equipment pursuant to contract, and may subcontract part of the work undertaken by force account, so long as the contracts for material and equipment and the subcontracts are let in compliance with the appropriate competitive bidding requirements;

<sup>38</sup> Although the opinion was issued in response to a County's inquiry, the Auditor of State will apply this guidance to each public office undertaking force account projects pursuant to AOS Bulletin 2008-004.

- The estimate of the cost of road, bridge or culvert work must include the cost of materials and equipment that would be acquired by contract, and the cost of work that would be performed pursuant to a subcontract, if the project were undertaken by force account. If the total exceeds the applicable force account limit, the whole project must be competitively bid;
- Failure to comply with competitive bidding requirements when contracting for materials or equipment as part of a force account project, or when subcontracting work performed on a force account project, constitutes a violation of the force account limits as well as the applicable competitive bidding law.

Refer to AOS Bulletin 2008-004 for further information regarding 2008 Op. Atty. Gen. No. 2008-007 and the matters mentioned above.

### **Noncompliance**

Note: These laws require the Auditor of State to track all published [GAGAS-level] citations and any notifications sent to affected entities. Auditor of State staff should document on the Audit Executive Summaries, force account citations in the GAGAS report or if you have recommended that the Auditor of State send the entity [or the State Tax Commissioner] the communication required by these changes notifying the entities of the increased force account limits. Certified Public Accountants auditing force accounts should follow the guidance in Ohio Rev. Code § 117.12.

### **Suggested Audit Procedures - Compliance (Substantive) Tests:**

Note: For ODOT projects, ODOT forms may be used in place of an Auditor of State form. You should test whichever form is appropriate for your project.

Read the minutes, inquire of management, and scan expenditures to reasonably determine if any capital construction or maintenance activity relating to a street or other public way took place during the audit period. Determine if such projects were undertaken using force accounts.

If such projects were undertaken, inspect a representative number of the entity's completed Auditor of State Uniform Force Account Project Assessment or ODOT forms. Trace wage rates, etc. to entity supporting documentation on a test basis.

Inspect the Auditor of State's project assessment or ODOT forms prepared by the entity and determine that work undertaken by force account for construction, reconstruction, widening, resurfacing, or repair of a street or other public way was documented to have an estimated cost of \$30,000/per mile or less.

Determine if the entity used the "safe harbor" percentages described in Bulletin 2003-003. Recompute items on the form or scan the form for reasonableness. If the entity used its own labor fringes or overhead rates, or materials overhead rates, obtain supporting documentation and review for reasonableness.

Compare the actual projects' costs with the project assessment form estimates. Inquire of management for reasons for any change orders or apparent excessive costs compared with the project estimates. Evaluate for reasonableness of the estimates. Be alert for indications of "bid-splitting" or deliberate attempts to evade bid limitations, such as successive estimations just under the bid amount.

Whether such projects have been undertaken or not, consider adding language to the audit management representation letter affirming or disaffirming the existence of projects subject to the applicable force account provisions.



Note: with “force account” provisions, it is possible to have non-compliance with the preparation of the Auditor of State form; with the bidding limits; or with both.

If the “force account” limits have been violated – that is, the municipal corporation did the work by force account even though it should have been bid – then the Auditor of State is required to notify the entity [and possibly the State tax commissioner] of the penalty provisions specified in AOS Bulletin 2003-003. Auditors should indicate in this block of the OCS if the Auditor of State is to notify the entity\State tax commissioner of any of the penalty provisions. Auditor of State auditors should include this in the executive summary. IPAs should notify the Auditor of State Center for Audit Excellence.

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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## COUNTIES

**2-1617 Compliance Requirement:** Ohio Rev. Code § 117.16(A); 5543.19 – Force accounts - Counties.

**Summary of Requirements:**

**AOS Force Account Project Assessment Form(See note below for Ohio Department of Transportation Projects)**

A county engineer, when authorized by the county commissioners, may utilize county labor and materials when undertaking the construction, reconstruction, improvement, maintenance, or repair of **roads**. Before undertaking force account activity for **construction** or **reconstruction**, including **widening** and **resurfacing**, of **roads**, an estimate of the cost of the road work must be compiled using the Auditor of State's force account project assessment form. When the estimated cost of the total project, including labor,<sup>39</sup> exceeds \$30,000 per mile, the county commissioners must invite and receive competitive bids from private contractors for completing the **road** work.

*Note: § 5543.19 (A) does not explicitly require using the Auditor of State's force account project assessment form for the **maintenance or repair** of roads. However, § 117.16(A) requires using this form for each public office that undertakes force account projects, presumably including, for counties, maintenance and repair of roads.*

The Auditor of State's prescribed form [required by Ohio Rev. Code § 117.16(A)] for this purpose can be found on our website at the following link:

<https://ohioauditor.gov/references/development/ElectronicForceAccountProjectAssessmentForm.xls>

Auditor of State Bulletin 2003-003 states an entity may use certain "safe harbor" percentages in computing its estimated costs; if the entity used these safe harbors, auditor of state auditors may accept them without further analysis. The entity may develop its own percentages for the add-ons for labor fringes and overhead costs, and materials overhead costs; the entity should present documentation to the auditor to justify these self-computed percentage add-ons.

**Joint Projects(See note below for Ohio Department of Transportation Projects)**

Joint projects undertaken by 2 or more of the affected entities require that the higher force account limits of the participating parties be applied [Ohio Rev. Code §117.161]. Participating entities shall not aggregate their respective limits, and the share of each entity shall not exceed its respective force account limit. Calculating the proper project force account limits and the share thereof to each participating party should be memorialized in the contracts or other agreements between the parties. One of the participating entities shall complete the force account project form prior to proceeding by force account. An entity shall not proceed with a joint force account project if any one of them is subject to reduced force account limits under Ohio Rev. Code § 117.16(C) or (D).

**Bid Specifications(See note below for Ohio Department of Transportation Projects)**

Various terms, such as **road maintenance and repair, construction, and reconstruction**, are not defined in the Ohio Rev. Code sections discussed in the individual subsections below. We indicate in each such section that the Auditor of State will accept definitions from the entity's legal counsel, and/or county engineer, as appropriate, unless the definitions are palpably and manifestly arbitrary or incorrect. *If the entity's legal counsel, and/or county engineer, as appropriate, did not define the indicated terms for*

<sup>39</sup> Pursuant to 2008 Op. Atty. Gen. No. 2008-007 discussed in section 2-16, any work subcontracted to private contractors should be included in the total cost of the project to determine if the project should be bid.

the entity, indicate the same in your draft report. Consult with the AOS's Legal department concerning any issues involving a potential finding or citation.

A county engineer, when authorized by the county commissioners, may utilize county labor and materials when undertaking the construction, reconstruction, improvement, maintenance, or repair of **bridges and culverts**. Before undertaking force account activity, an estimate of the cost of the bridge/culvert work must be compiled using the Auditor of State's force account project assessment form. When the estimated cost of the work exceeds \$100,000, the county commissioners must invite and receive competitive bids from private contractors for completing the **bridge/culvert** work.

*Note: The following clarifies how all entity types subject to force account limits should measure these limits for fractions of miles, excerpted from Auditor of State Audit Bulletin 2007-001:*

“A county must bid a project involving construction or reconstruction of a road if it exceeds \$30,000 per mile. However, it is unclear whether the limit for a 1.5 mile project would be \$45,000 (\$30,000 for the first mile, \$15,000 for the partial second mile), or \$60,000 (\$30,000 for each mile – full or partial – of the project). We determined that it was appropriate to consider the legislative intent separately for projects under one mile and for projects exceeding one mile.

**For projects exceeding one mile**, we determined that the intent of these statutes was to apply the limits proportionally for partial miles. In other words, for the example of the county cited above, the applicable force account limit would be \$45,000.

**For projects less than a mile**, the interpretation above would cause problems. In the example of a county commencing a small road repair project of one-tenth of a mile, a proportional limit would require the county to bid the project if it exceeded \$3,000 (one tenth of the \$30,000 per mile limit). We did not believe that this was the result intended by the legislature, so for projects of less than a mile, the entire per mile limit (in the case of the county in our example, \$30,000) will apply. In other words, any project that is less than a mile (regardless of distance) is to be treated as if it were a mile and subjected to the entity's corresponding monetary limit.”

*Note: The following applies to Ohio Department Of Transportation Projects*

**Force Account Limits (Ohio Rev. Code § 5517.02)**

The legislative changes in House Bill 51 increased the statutory limits for ODOT force account projects to \$30,000 per mile of highway and \$60,000 for any traffic control signal or any other single project. The changes also require the ODOT Director to increase these limits on the first day of July of every odd-numbered year beginning in 2015 by an amount to not exceed the lesser of three per cent or the percentage increase in ODOT's construction cost index, as annualized and totaled for the two prior calendar years. The Director shall publish the applicable amounts on ODOT's website.

**Work Exempt from Competitive Bidding/Force Account Requirements (Ohio Rev. Code § 5517.021)**

Certain work that may be undertaken by ODOT that does not require competitive bidding:

- Replace any single span bridge in its substantial entirety or widen any single span bridge, including necessary modifications to accommodate widening the existing substructure and wing walls. The deck area of the new or widened bridge may not exceed 700 square feet as measured around the outside perimeter of the deck.

- Replace the bearing, beams, and deck of any bridge on that bridge's existing foundation if the deck area of the rehabilitated structure does not exceed 800 square feet.
- Construct or replace any single cell or multi-cell culvert whose total waterway opening does not exceed 52 square feet.
- Pave or patch an asphalt surface if the operation does not exceed 120 tons of asphalt per lane-mile of roadway length. The department may not perform a continuous resurfacing operation under this section if the cost of work exceeds the amounts established in R.C. Section 5517.02.
- Approach roadway work, extending not more than 150 feet as measured from the back side of the bridge abutment wall or outside the edge of the culvert, as applicable. The length of the approach guardrail shall be in accordance with ODOT's design requirements and shall not be included in the approach work size limitation.

These projects are not subject to the force account requirements of Ohio Rev. Code § 117.16, do not require an estimate, and are exempt from audit for force account purposes except to determine compliance with applicable size or tonnage restrictions.

#### **Force Account Assessment Forms (Ohio Rev. Code § 117.16)**

Ohio Rev. Code § 117.16 requires that, before undertaking a project by force account, a public entity must estimate the cost of the project using a form approved by the Auditor of State. With projects constructed by or in conjunction with ODOT, an estimate may be prepared using the Department's automated system (currently the Enterprise Information Management System (EIMS), which replaced the Transportation Management System (TMS), effective June 16, 2014) or other internal standardized forms. Such estimates are acceptable in lieu of the Auditor of State's force account project assessment form provided all the necessary elements of an estimate, as required by Ohio Rev. Code § 117.16, are included. However, whether prepared using the AOS form, the electronic ODOT system, or another standard ODOT form, an estimate is required to be completed and documentation supporting the estimate should be retained for ALL projects, unless specifically exempted by R.C. If the total estimated cost exceeds the statutory limits defined in R.C., the project must be competitively bid.

**Ohio Attorney General Opinion 2008-007** briefly states:

- Completing the Auditor of State's force account project assessment form estimating the cost of the work constitutes commencement of the project for purposes of determining which force account limit is in effect and applicable to the project;
- The Auditor of State is authorized to require the use of a "safe harbor rate" for the cost of overhead or the justification of a different rate in estimating the cost of road, bridge and culvert work;
- A public office may acquire material and equipment pursuant to contract, and may subcontract part of the work undertaken by force account, so long as the contracts for material and equipment and the subcontracts are let in compliance with the appropriate competitive bidding requirements;
- The estimate of the cost of road, bridge or culvert work must include the cost of materials and equipment that would be acquired by contract, and the cost of work that would be performed pursuant to a subcontract, if the project were undertaken by force account. If the total exceeds the applicable force account limit, the whole project must be competitively bid;

- Failure to comply with competitive bidding requirements when contracting for materials or equipment as part of a force account project, or when subcontracting work performed on a force account project, constitutes a violation of the force account limits as well as the applicable competitive bidding law.

Refer to AOS Bulletin 2008-004 for further information regarding 2008 Op. Atty. Gen. No. 2008-007 and the matters mentioned above.

### **Noncompliance**

Note: These laws require the Auditor of State to track all published [GAGAS-level] citations and any notifications sent to affected entities. Auditor of State staff should document on the Audit Executive Summaries, force account citations in the GAGAS report or if you have recommended that the Auditor of State send the entity [or the State Tax Commissioner] the communication required by these changes notifying the entities of the increased force account limits. Certified Public Accountants auditing force accounts should follow the guidance in Ohio Rev. Code § 117.12.

### **Suggested Audit Procedures - Compliance (Substantive) Tests:**

Note: For ODOT projects, ODOT forms may be used in place of an Auditor of State form. You should test whichever form is appropriate for your project.

Read the minutes, inquire of management, and scan expenditures to reasonably determine if any road capital construction or maintenance activity took place during the audit period. Determine if such projects were undertaken using force accounts.

If such projects were undertaken, inspect a representative number of the entity's completed Auditor of State Uniform Force Account Project Assessment or ODOT forms. Trace wage rates, etc. to entity supporting documentation on a test basis.

Inspect the Auditor of State's project assessment or ODOT forms prepared by the county engineer and determine that work undertaken by force account for construction, reconstruction, widening, or resurfacing of roads was documented to have an estimated cost of \$30,000 or less per mile.

Inspect the county engineer's project assessment or ODOT forms, and determine whether they document that work undertaken by force account to construct, reconstruct, improve, maintain, or repair bridges and culverts cost an estimated \$100,000 or less.

Determine if the entity used the "safe harbor" percentages described in Bulletin 2003-003. Recompute items on the form or scan the form for reasonableness. If the entity used its own labor fringes or overhead rates, or materials overhead rates, obtain supporting documentation and review for reasonableness.

Compare the actual projects' costs with the project assessment form estimates. Inquire of management for reasons for any change orders or apparent excessive costs compared with the project estimates. Evaluate for reasonableness of the estimates. Be alert for indications of "bid-splitting" or deliberate attempts to evade bid limitations, such as successive estimations just under the bid amount.

Whether such projects have been undertaken or not, consider adding language to the audit management representation letter affirming or disaffirming the existence of projects subject to the applicable force account provisions.

Note: with “force account” provisions, it is possible to have non-compliance with the preparation of the Auditor of State form; with the bidding limits; or with both.

If the “force account” limits have been violated – that is, the county did the work by force account even though it should have been bid – then the Auditor of State is required to notify the entity [and possibly the State tax commissioner] of the penalty provisions specified in AOS Bulletin 2003-003. Auditors should indicate in this block of the OCS if the Auditor of State is to notify the entity\State tax commissioner of any of the penalty provisions. Auditor of State auditors should include this in the executive summary. IPAs should notify the Auditor of State Center for Audit Excellence.

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**TOWNSHIPS**

**2-1718 Compliance Requirement:** Ohio Rev. Code § 117.16(A); 5575.01 – Force accounts - Townships.

**Summary of Requirements:****AOS Force Account Project Assessment Form (See note below for Ohio Department of Transportation Projects)**

In the **maintenance** and **repair** of **roads** the board of township trustees may use force account labor provided the board has first caused **the county engineer** to complete the Auditor of State’s prescribed force account project assessment form.

The Auditor of State’s prescribed form [required by Ohio Rev. Code § 117.16(A)] for this purpose can be found on our website at the following link:

<https://ohioauditor.gov/references/development/ElectronicForceAccountProjectAssessmentForm.xls>

Auditor of State Bulletin 2003-003 states an entity may use certain “safe harbor” percentages in computing its estimated costs; if the entity used these safe harbors, auditor of state auditors may accept them without further analysis. The entity may develop its own percentages for the add-ons for labor fringes and overhead costs, and materials overhead costs; the entity should present documentation to the auditor to justify these self-computed percentage add-ons.

Before undertaking the **construction** or **reconstruction** of a township road, the board shall obtain from the **county engineer** an estimate of the cost of such work, which estimate shall include labor, material, freight, fuel, hauling, use of machinery and equipment, and all other items of cost. The Auditor of State’s interpretation of Ohio Rev. Code § 5575.01(C), is that the county engineer should use the Auditor of State’s force account project assessment form in estimating these costs. Note: when there is no AOS project assessment form completed, cite 5575.01(C). If neither the form nor any other type of estimate is completed, cite to both 5575.01(B) and (C).

The Auditor of State’s force account project assessment form is **not** required if the **road maintenance or repair** project’s total estimated cost is less than \$15,000 or if the **road construction or reconstruction’s** total estimated cost is less than \$5,000 per mile. The terms **road maintenance and repair, construction, and reconstruction**, are not defined in this Ohio Rev. Code section. The township’s legal counsel, and/or county engineer, along with the board, should define these terms for the township. The Auditor of State will accept those definitions unless they are palpably and manifestly arbitrary or incorrect.

**Joint Projects(See note below for Ohio Department of Transportation Projects)**

Joint projects undertaken by 2 or more of the affected entities require that the higher force account limits of the participating parties be applied [Ohio Rev. Code §117.161]. Participating entities shall not aggregate their respective limits, and the share of each entity shall not exceed its respective force account limit. Calculating the proper project force account limits and the share thereof to each participating party should be memorialized in the contracts or other agreements between the parties. One of the participating entities shall complete the force account project form prior to proceeding by force account. An entity shall not proceed with a joint force account project if any one of them is subject to reduced force account limits under Ohio Rev. Code § 117.16(C) or (D).

**Bid Specifications(See note below for Ohio Department of Transportation Projects)**

Various terms, such as **road maintenance and repair, construction, and reconstruction** are not defined in the Ohio Rev. Code sections discussed in the individual subsections below. We indicate in each such section that the Auditor of State will accept definitions from the entity's legal counsel, and/or county engineer, as appropriate, unless the definitions are palpably and manifestly arbitrary or incorrect. *If the entity's legal counsel, and/or county engineer, as appropriate, did not define the indicated terms for the entity, indicate the same in your draft report. Consult with the AOS's Legal department concerning any issues involving a potential finding or citation.* Certified Public Accountants auditing force accounts should follow the guidance in Ohio Rev. Code § 117.12.

Force accounts **may not** be used and bidding is required when the total estimated cost of the project, including labor, for **maintenance and repair** of roads exceeds \$45,000.

Bids from private contractors should be sought when the total estimated cost of the project, including labor, for **construction or reconstruction** of roads exceeds \$15,000 per mile. However, force accounts **may** be used if the board finds it in the best interest of the public. In this case, private contractor bids must have been received, considered, and rejected, and the force account work must be performed in compliance with the plans and specifications upon which the bids were based.

*Note: The following clarifies how all entity types subject to force account limits should measure these limits for fractions of miles, excerpted from Auditor of State Audit Bulletin 2007-001:*

“A township must bid a project involving construction or reconstruction of a road if it exceeds \$15,000 per mile. However, it is unclear whether the limit for a 1.5 mile project would be \$22,500 (\$15,000 for the first mile, \$7,500 for the partial second mile), or \$30,000 (\$15,000 for each mile – full or partial – of the project). We determined that it was appropriate to consider the legislative intent separately for projects under one mile and for projects exceeding one mile.

**For projects exceeding one mile**, we determined that the intent of these statutes was to apply the limits proportionally for partial miles. In other words, for the example cited above, the applicable force account limit would be \$22,500.

**For projects less than a mile**, the interpretation above would cause problems. In the example of a township commencing a small road repair project of one-tenth of a mile, a proportional limit would require the township to bid the project if it exceeded \$1,500 (one tenth of the \$15,000 per mile limit). We did not believe that this was the result intended by the legislature, so for projects of less than a mile, the entire per mile limit (in the case of our example, \$15,000) will apply. In other words, any project that is less than a mile (regardless of distance) is to be treated as if it were a mile and subjected to the entity's corresponding monetary limit.”

*Note: The following applies to Ohio Department Of Transportation Projects*

**Force Account Limits (Ohio Rev. Code § 5517.02)**

The legislative changes in House Bill 51 increased the statutory limits for ODOT force account projects to \$30,000 per mile of highway and \$60,000 for any traffic control signal or any other single project. The changes also require the ODOT Director to increase these limits on the first day of July of every odd-numbered year beginning in 2015 by an amount to not exceed the lesser of three per cent or the percentage increase in ODOT's construction cost index, as annualized and totaled for the two prior calendar years. The Director shall publish the applicable amounts on ODOT's website.

**Work Exempt from Competitive Bidding/Force Account Requirements (Ohio Rev. Code § 5517.021)**



Certain work that may be undertaken by ODOT that does not require competitive bidding:

- Replace any single span bridge in its substantial entirety or widen any single span bridge, including necessary modifications to accommodate widening the existing substructure and wing walls. The deck area of the new or widened bridge may not exceed 700 square feet as measured around the outside perimeter of the deck.
- Replace the bearing, beams, and deck of any bridge on that bridge's existing foundation if the deck area of the rehabilitated structure does not exceed 800 square feet.
- Construct or replace any single cell or multi-cell culvert whose total waterway opening does not exceed 52 square feet.
- Pave or patch an asphalt surface if the operation does not exceed 120 tons of asphalt per lane-mile of roadway length. The department may not perform a continuous resurfacing operation under this section if the cost of work exceeds the amounts established in R.C. Section 5517.02.
- Approach roadway work, extending not more than 150 feet as measured from the back side of the bridge abutment wall or outside the edge of the culvert, as applicable. The length of the approach guardrail shall be in accordance with ODOT's design requirements and shall not be included in the approach work size limitation.

These projects are not subject to the force account requirements of Ohio Rev. Code § 117.16, do not require an estimate, and are exempt from audit for force account purposes except to determine compliance with applicable size or tonnage restrictions.

#### **Force Account Assessment Forms (Ohio Rev. Code § 117.16)**

Ohio Rev. Code § 117.16 requires that, before undertaking a project by force account, a public entity must estimate the cost of the project using a form approved by the Auditor of State. With projects constructed by or in conjunction with ODOT, an estimate may be prepared using the Department's automated system (currently the Enterprise Information Management System (EIMS), which replaced the Transportation Management System (TMS), effective June 16, 2014) or other internal standardized forms. Such estimates are acceptable in lieu of the Auditor of State's force account project assessment form provided all the necessary elements of an estimate, as required by Ohio Rev. Code § 117.16, are included. However, whether prepared using the AOS form, the electronic ODOT system, or another standard ODOT form, an estimate is required to be completed and documentation supporting the estimate should be retained for **ALL** projects, unless specifically exempted by R.C. If the total estimated cost exceeds the statutory limits defined in R.C., the project must be competitively bid.

**Ohio Attorney General Opinion 2008-007** briefly states:

- Completing the Auditor of State's force account project assessment form estimating the cost of the work constitutes commencement of the project for purposes of determining which force account limit is in effect and applicable to the project;
- The Auditor of State is authorized to require the use of a "safe harbor rate" for the cost of overhead or the justification of a different rate in estimating the cost of road, bridge and culvert work;
- A public office may acquire material and equipment pursuant to contract, and may subcontract part of the work undertaken by force account, so long as the contracts for material and equipment and the subcontracts are let in compliance with the appropriate competitive bidding requirements;

- The estimate of the cost of road, bridge or culvert work must include the cost of materials and equipment that would be acquired by contract, and the cost of work that would be performed pursuant to a subcontract, if the project were undertaken by force account. If the total exceeds the applicable force account limit, the whole project must be competitively bid;
- Failure to comply with competitive bidding requirements when contracting for materials or equipment as part of a force account project, or when subcontracting work performed on a force account project, constitutes a violation of the force account limits as well as the applicable competitive bidding law.

Refer to AOS Bulletin 2008-004 for further information regarding 2008 Op. Atty. Gen. No. 2008-007 and the matters mentioned above.

### **Noncompliance**

Note: These laws require the Auditor of State to track all published [GAGAS-level] citations and any notifications sent to affected entities. Auditor of State staff should document on the Audit Executive Summaries, force account citations in the GAGAS report or if you have recommended that the Auditor of State send the entity [or the State Tax Commissioner] the communication required by these changes notifying the entities of the increased force account limits. Certified Public Accountants auditing force accounts should follow the guidance in Ohio Rev. Code § 117.12.

### **Suggested Audit Procedures - Compliance (Substantive) Tests:**

Note: For ODOT projects, ODOT forms may be used in place of an Auditor of State form. You should test whichever form is appropriate for your project.

Read the minutes, inquire of management, and scan expenditures to reasonably determine if any road capital construction or maintenance activity took place during the audit period. Determine if such projects were undertaken using force accounts.

Inspect the estimates prepared by the county engineer and determine that work undertaken by force account was documented as less than \$15,000 for a **road maintenance or repair** project or less than \$5,000 per mile for a **road construction or reconstruction** project. If so, no Auditor of State force account project assessment form would have been required to have been completed.

Inspect the estimates prepared by the county engineer and determine that work undertaken by force account was documented as \$45,000 or less for **maintenance** and **repair** of roads.

Inspect the estimates prepared by the county engineer and determine that work undertaken by force account was documented as less than \$15,000 per mile for **construction or reconstruction** of roads.

If the bids from private contractors were taken for **construction or reconstruction** of roads but the board used the force account anyway, determine that the board documented that the private contractor bids were received, considered, and rejected, and the board's rationale for why using the force account approach was in the best interest of the public. Compare the force account's documented project specifications with the plans and specifications upon which the private contractor bids were based.

If such projects were undertaken, inspect a representative number of the entity's completed Auditor of State Uniform Force Account Project Assessment or ODOT forms. Trace wage rates, etc. to entity supporting documentation on a test basis.

Determine if the entity used the “safe harbor” percentages described in Bulletin 2003-003. Recompute items on the form or scan the form for reasonableness. If the entity used its own labor fringes or overhead rates, or materials overhead rates, obtain supporting documentation and review for reasonableness.

Compare the actual projects’ costs with the project assessment form estimates. Inquire of management for reasons for any change orders or apparent excessive costs compared with the project estimates. Evaluate for reasonableness of the estimates. Be alert for indications of “bid-splitting” or deliberate attempts to evade bid limitations, such as successive estimations just under the bid amount.

Whether such projects have been undertaken or not, consider adding language to the audit management representation letter affirming or disaffirming the existence of projects subject to the applicable force account provisions.

Note: with “force account” provisions, it is possible to have non-compliance with the preparation of the Auditor of State or ODOT form; with the bidding limits; or with both.

If the “force account” limits have been violated – that is, the township did the work by force account even though it should have been bid – then the Auditor of State is required to notify the entity [and possibly the State tax commissioner] of the penalty provisions specified in AOS Bulletin 2003-003. Auditors should indicate in this block of the OCS if the Auditor of State is to notify the entity\State tax commissioner of any of the penalty provisions. Auditor of State auditors should include this in the executive summary. IPAs should notify the Auditor of State Center for Audit Excellence.

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**ACCOUNTING AND REPORTING**  
**Counties' Electronic (i.e., Internet) Transactions**

**2-1819 Compliance Requirement:** Ohio Rev. Code §117.111(A) Security controls over counties' electronic (i.e. internet) transactions

**Summary of Requirement:** The AOS (and IPAs contracting to audit counties) **must** inquire into the method, accuracy and effectiveness of any procedure a county office adopts under Ohio Rev. Code §304.02 to secure electronic signatures or records relating to county business that is conducted electronically under Chapter 1306 of the Revised Code.<sup>40</sup>

Other statutes relevant to this requirement:

**Per Ohio Rev. Code § 304.01:**

(B) "County office" means any officer, department, board, commission, agency, court, or other instrumentality of a county.

(D) "Electronic record" means a record created, generated, sent communicated, received, or stored by electronic means.

(E) "Electronic signature" means an electronic sound, symbol, or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign the record.

► Note: The signature can be by a county employee or a citizen transacting business with a county office.

**Ohio Rev. Code § 304.02:** Prior to a county office using electronic records and electronic signatures, under Chapter 1306 of the Revised Code and except as otherwise provided in § 955.013 of the Revised Code, a county office shall adopt, in writing, a security procedure to verify that an electronic signature, record, or performance is that of a specific person or for detecting changes or errors in the information in an electronic record. A security procedure includes, but is not limited to, a procedure requiring algorithms or other codes, identifying words or numbers, encryption, or callback or other acknowledgment procedures.

**Ohio Rev. Code § 955.013** permits paying dog and kennel registration fees by financial transaction devices (e.g. credit cards), including via the internet.

**Ohio Rev. Code § 1306.02(A)** provides that Chapter 1306 of the Revised Code, the Uniform Electronic Transactions Act, generally applies to electronic records and electronic signatures relating to a transaction.

**Ohio Rev. Code § 1306.04(B)** provides that sections 1306.01 to 1306.23 of the Revised Code apply only to transactions between parties each of which has agreed to conduct transactions by electronic means.

**Ohio Rev. Code § 1306.01(P)** defines "transaction" as an action or set of actions occurring between two or more persons relating to the conduct of business, commercial, or governmental affairs.

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<sup>40</sup> Note: Since the legislature has mandated this step, we should deem it to be qualitatively material.

**Ohio Rev. Code § 1306.11:** (A) An electronic record of information generally satisfies record retention laws.

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

1. Determine the electronic records and electronic signatures relating to a county office's electronic (i.e. *internet*) transactions. These include:
  - a. Cash receipts where a county office accepts credit/debit cards electronically (i.e, via the internet).
  - b. Other types of internet transactions.<sup>41</sup>
  
2. Obtain and read the *written* security procedure the county office (or its internet transaction service organization<sup>42</sup>) adopted to safeguard each type of electronic (i.e. internet) transaction. Note: Because the service organization processes most elements of these transactions, it is sufficient if the *service organization* adopts security procedures. If the service organization requires the county office to adopt "user control" security procedures, we should consider whether the county office has implemented these controls. (Often the service organization's contract or response to a county office's RFP will describe the security procedures.)
  - a. Retain a copy or summary of the procedure in the permanent file.
  - b. Update systems' documentation as needed.<sup>43</sup>

Assess the effectiveness of the design of controls and determine that they have been "implemented." (AOS staff can refer to AOSAM 30500.75-.79)
  
3. Determine whether results from the steps above regarding the design and implementation of controls related to securing electronic signatures and electronic records relating to internet transactions result in any management comments, significant deficiencies or material weaknesses. We must also report as a noncompliance finding. Since the statute explicitly refers to a security procedure adopted in writing, we should report the absence of a security procedure adopted in writing.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

<sup>41</sup> As noted on the previous page, Ohio Rev. Code § 955.013 separately addresses electronic / internet sales of dog licenses. Direct deposits do *not* fall under Ohio Rev. Code 117.111 or Ohio Rev. Code 304.02.

<sup>42</sup> Companies providing internet transaction services may be *service organizations*. We should consider service organization implications per AU-C 402 depending upon the materiality of the transactions.

<sup>43</sup> AOS staff should update the RCEC where needed to incorporate electronic (i.e. internet) transactions, including controls and procedures designed to safeguard electronic transactions. Also, consider the appropriate degree of ISA involvement. AOS audit staff must consult with ISA when a government has a complex IT environment (AOSAM 30500.52-.54). Also consider that the nature of electronic transactions and signatures subject to this law may require ISA assistance.

**OTHER LAWS AND REGULATION  
GENERAL**

**2-1920 Compliance Requirement:** Ohio Admin Code § 3745-27-15 through 18 Landfill Financial Responsibility and Certifications

*The following is only a summary. When auditing a government managing a landfill, auditors should obtain and read copies of the applicable Ohio Administrative Code sections.*

Governments owning or managing landfills must annually certify financial information related to their ability to finance closure and postclosure liabilities to the OEPA. These reports are due within 180 days of fiscal year end.

An index to the relevant Ohio Administrative Code requirement follows:

- 3745-27-15: Solid waste facility or scrap tire transporter final closure requirements (Section (L) describes the local government test)
  - 3745-27-16: Solid waste facility or scrap tire transporter final postclosure requirements (Section (L) describes the local government test)
  - 3745-27-17: Wording of financial assurance instruments (Section (H) describes the wording for the letter governments assured under the local government test must submit to OEPA).
  - 3745-27-18: Only applies when OEPA director mandates corrective action, such as to remediate landfill groundwater contamination described in 3745-27-10. (Section (M) describes the local government requirements, if applicable.)
- I. The Federal EPA adopted a regulation (40 CFR 258.74(f)) allowing governmental solid waste landfills (GSWLFs) to avoid acquiring third-party financial instruments (such as letters of credit, insurance or establishing trust funds) to assure current final closure, postclosure and/or corrective measure cost estimates and any other environmental obligations to the extent they meet certain financial tests. The Federal EPA placed the responsibility for monitoring compliance with this rule on the states. In response, the Ohio EPA adopted a regulation that parallels the Federal regulation in most aspects.
  - II. A GSWLF need not obtain third-party instruments for amounts up to 43% of the local government's **total revenue**,<sup>44</sup> *provided* that it meets the tests described in **III** below. A GSWLF must obtain a third-party instrument (e.g., insurance, trust fund, bond) for all current final closure, postclosure and/or corrective measure cost estimates and any other environmental obligations, exceeding 43% of total revenue.
  - III. There are two alternatives to the third-party financial instruments nongovernments must have for (closure + postclosure + mandated corrective care costs). Governments do not need these instruments (for up to 43% of total annual revenue), if:

**Alternative I**

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<sup>44</sup> Terms defined in the *State Support Document for the Local Government Financial Test* are printed in **boldface type** the first time they appear. A copy of this document was sent to each region

- a. The GSWLF issues GAAP financial statements.
- b. The GSWLF has not:
  1. Defaulted on GO bonds, or has not issued GO bonds of less than investment grade per Moody's or S&P.  
  
Local governments issuing bonds secured by collateral or a guarantee (e.g. AMBAC insurance) must meet the minimum rating without that security. (This means consider the *government's* debt rating, not the rating of a particular insured or collateralized *issue*.)
  2. Has not operated at a deficit of greater than or equal to (5% x annual revenue) in either of the past two fiscal years. (The federal rule defines a deficit as total revenue minus **total expenditures**);
  3. Received a qualified opinion.

Also, either condition c. or d. must be met:

- c. All GO bonds must be of investment grade, rated by either Moody's or S&P.

**OR:**

**Alternative II:**

- d. The GSWLF must have:
  1. **(Cash + marketable securities)** / total expenditures  $\geq$  5%, AND
  2. **Debt service** / total expenditures  $\leq$  20%, AND
  3. **Ratio of long term debt issued & outstanding / capital expenditures** must be  $\leq$  2.0.

(Based on the federal regulation, we believe that the reference to "outstanding" debt immediately above only refers to debt issued in the current year that is still outstanding at year end.)

IV. Reporting requirements:

- a. The GAAP statements must comply with GASB 18 disclosures (this requirement does not appear in the Ohio Administrative Code, but is included in the Federal regulation.) However, Ohio Admin. Code § 3745-27-15(C)(1)(a) requires the final closure financial assurance instrument for a sanitary landfill facility, solid waste transfer facility, solid waste incinerator, or Class I composting facility to contain an itemized written estimate, in current dollars, of the cost of final closure. The final closure cost estimate shall be based on the final closure costs at the point in the operating life of the facility when the extent and manner of its operation would make the final closure the most expensive, and shall be based on a third party conducting the final closure activities.
- b. The CFO must prepare a letter listing current final closure, postclosure and/or corrective measure cost estimates and any other environmental obligations, and certify whether the government meets III.a.-d. (above), and also certify that the government is assuring a liability  $\leq$  43% of annual operating revenues.
- c. Audited financial statements must be kept as part of the "facility's operating record."

- d. Accountants must also issue an agreed-upon procedures report. The procedures must note whether amounts used for the ratios Alternative II above in the CFO's letter agree to the audited GAAP statements.

#### V. Definitions:

To assure that the CFO's letter is appropriate, it is critical that the financial information be consistent with the definitions in the *State Support Document for the Local Government Financial Test* (the Document). For example, the Document explains that "total expenditures" should not include capital project, internal service or fiduciary fund expenditures/expenses. A copy of the *Document* has been sent to each regional office.

The Federal EPA informed us they do not intend to update the Document for GASB 34. Therefore, we believe the amounts for the accounts described above appearing in the CFO's letter (cash and marketable securities, revenues, etc.) should be derived from the governmental and proprietary **fund** financial statements, not from the entity-wide financial statements.

#### VI. Other

1. The Federal regulation gives state directors the option of allowing governments to discount the liability. However, Ohio does not permit discounting. Also, paragraph 42 of GASB 18 prohibits discounting.
2. Both the Federal and State regulations refer to governmental financial statements as *Comprehensive Annual Financial Reports*. However, while the Federal and State rules require GAAP reporting, there appears to be no explicit requirement to prepare a CAFR. In the Auditor of State's opinion, basic financial statements complying with GASB 18 and including segment information (if applicable) for the landfill operation are sufficient.

#### Suggested Audit Procedures - Compliance (Substantive) Tests:

**NOTE: These procedures relate to the local government test. If a government uses other assurance methods, auditors must read the applicable Ohio Admin. Code § 3745-27 requirements and design appropriate tests and reports.**

**For AOS staff: If the reporting differs from the example AUP available to AOS staff in the Briefcase, you must submit your draft report to the Center for Audit Excellence for review.**

Determine whether the estimate of closure, postclosure and other corrective care liabilities has been updated through the most recent balance sheet date. Such estimates may require corroboration by an environmental specialist. (The auditor may need to consider AU-C 620, *Using the Work of a Specialist*.)

Compare the format of the CFO's letter to the EPA with the example included in Ohio Admin. Code §3745-27-17(H).

Prepare the agreed-upon procedures report required by the Federal EPA. An example report is available to AOS staff in the AOS Briefcase/Audit Employees folder under AUP.



If the government cannot meet the government test, or has liabilities exceeding 43% of annual revenue, inquire which method the government has selected to assure these amounts. If the government has (1) established a final closure trust fund; (2) secured a surety bond guaranteeing payment; (3) obtained an irrevocable letter of credit or; (4) obtained commercial insurance to finance these liabilities, then inspect documentation that the required funds, bonds, letter of credit, or insurance have been obtained, and are in force.

GASB 18, paragraph 7(e) requires disclosing the methods /instruments used to finance closure and postclosure care. (AOS omitted this sentence because the local government requirements in Ohio Admin. Code § 3745-27-15, 16, 17, and 18 mandate GAAP financial statements.)

- Read the draft financial statements to determine if they meet the GAAP display and disclosure requirements for these assets/guarantees/commitments, etc.

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**Revised: SB 287, 130<sup>th</sup> GA**  
**Effective: 9/04/14**

**2-2021 Compliance Requirements:** Ohio Rev. Code §§ 135.14(B)(7), 135.142, 135.22, 135.35, 319.04, 321.46 and 733.27 - Education Requirements

### Summary of Requirements:

#### Subdivision Treasurers<sup>45</sup>

Subdivision treasurers must complete annual continuing education programs provided by the Treasurer of State (TOS). The TOS issues certificates indicating that the treasurer has successfully completed the continuing education program.

The continuing education requirement does not apply to a subdivision treasurer who annually provides a notice of exemption to the Auditor of State, certified by the Treasurer of State (and confirmable through the TOS searchable database weblink below) that the treasurer is not subject to the continuing education requirements because the treasurer invests or deposits public funds in the following investments only (Ohio Rev. Code §135.22):

- (1) Interim deposits pursuant to § 135.14 (B)(3) or section 135.145 (CDAR and similar programs);
- (2) STAR Ohio pursuant to § 135.14(B)(6);
- (3) No-load money market mutual funds pursuant to § 135.14 (B)(5)

Specific requirements apply to the officials listed below:

#### County Treasurers

Newly-elected treasurers must complete education programs (26 hours) approved by the Auditor of State (13 hours) and the Treasurer of State (13 hours) between December 1 and the first Monday in September following that person's election [Ohio Rev. Code §321.46]. For instance, a treasurer elected in November 2011, taking office in 2012, would be required to receive the initial 26 hours of training between December 1, 2011 and September 2012. In this example, the newly-elected treasurer would complete one year in office in September 2013 and would then enter into the biennial cycle for 2014/2015 for continuing education.

After completing one year in office, a county treasurer must take not fewer than 24 hours of continuing education approved by the Auditor of State (12 hours) and the Treasurer of State (12 hours) in each **biennial cycle** commencing the January 1 after the treasurer's first year in office. County treasurers may carry forward up to six hours received from the Auditor of State plus up to six hours received from the Treasurer of State in excess of 24 from the current to the next biennial cycle. [Ohio Rev. Code §321.46] The biennial time periods are:

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<sup>45</sup> A treasurer of an agricultural society must comply with the continuing education requirements of Ohio Rev. Code § 135.22. The treasurer meets the definition of "treasurer" in Ohio Rev. Code § 135.22 (which refers to the definition in Ohio Rev. Code § 135.01) which is as follows: (M) "Treasurer" means, in the case of the state, the treasurer of state and in the case of any subdivision, the treasurer, or officer exercising the functions of a treasurer, of such subdivision. In the case of a board of trustees of the sinking fund of a municipal corporation, the board of commissioners of the sinking fund of a school district, or a board of directors or trustees of any union or joint institution or enterprise of two or more subdivisions not having a treasurer, such term means such board of trustees of the sinking fund, board of commissioners of the sinking fund, or board of directors or trustees.

- January 1, 2012 to December 31, 2013
- January 1, 2014 to December 31, 2015
- January 1, 2016 to December 31, 2017

Auditors should wait until the expiration of the applicable biennial time period to determine whether *existing treasurers* (as opposed to those *newly-elected*) have completed the continuing education requirements.

A treasurer who fails to complete the **initial** education programs required by §321.46 cannot invest and is *subject to removal from office*. Investment authority transfers immediately to the county investment advisory committee.

A treasurer who fails to complete the **continuing** education programs required by §321.46 is restricted to investing in STAR Ohio, no-load money market mutual funds pursuant to §135.14 (B)(5) and § 135.35(A)(5), or in certificates of deposit pursuant to Ohio Rev. Code §135.35(A)(~~6~~3), or savings or deposit accounts pursuant to Ohio Rev. Code §135.35(A)(~~6~~3). A county treasurer who has failed to complete the continuing education programs and invests in other than these investments is subject to removal from office.

### **Village Fiscal Officers**

Must attend annual training programs for new village fiscal officer *and* annual continuing education programs provided by the Auditor of State [Ohio Rev. Code §733.27]. (The Auditor of State interprets this section as requiring a newly-elected fiscal officer to attend the new fiscal officer's training offered by the Auditor of State between December 1 and the following February 15, and any other annual training offered by the Auditor of State. Continuing fiscal officers must attend the annual update sessions only.)

### **All Local Governments**

No investment shall be made in commercial paper or bankers acceptances unless the following have completed additional training for making those investments. The type and amount of additional training shall be approved by the ~~Auditor~~Treasurer of State:

- School treasurer [Ohio Rev. Code §135.142(B)]
- County investing treasurer<sup>46</sup> [Ohio Rev. Code §135.35(A)(8)]
- For other local governments: Treasurer or governing board [Ohio Rev. Code §135.14(B)(7)]

### **TOS CPIM Confirmation and FAQ's**

The Treasurer of State's website includes an online searchable CPIM report database<sup>47</sup> of treasurers receiving TOS-approved certifications and exemptions. The link to this website is: [http://stateofohio-web.ungerboeck.com/ceu/ceu\\_lookup.aspx](http://stateofohio-web.ungerboeck.com/ceu/ceu_lookup.aspx). However, the TOS website does not include CPIM for AOS-approved courses for county treasurers. Auditors should refer to the Continuing Education Hours Report under *County Treasurer's* box on the AOS website at <https://ohioauditor.gov/trainings/ContinuingEducationHoursReport.pdf> to obtain a listing of AOS-

<sup>46</sup> Ohio Rev. Code §135.35(A)(8) applies to the investing authority. However, the treasurer is the investing authority, except in the rare circumstance county commissioners determine a treasurer is not complying with county policies, per Ohio Rev. Code §135.34.

<sup>47</sup> Note: The reliability of the TOS online CPIM search results may be affected by the accuracy of information entered into the database. Therefore, auditors may still need to inquire with local treasurers regarding CPIM certifications if discrepancies are identified using the online database.

approved CPIM received by county treasurers.

Auditors can also refer to AOS/TOS Frequently Asked Questions (FAQ's) regarding training requirements for county and local subdivision treasurers on our website listed as *Training Requirements for County Treasurers* or as *Training Requirements for Treasurers of Subdivisions*

at: <https://ohioauditor.gov/trainings/CPIMFAQsForCountyTreasurers.doc> or  
<https://ohioauditor.gov/trainings/CPIMFAQsForTreasurersOfSubdivisions.doc>

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

For counties, please show me your certificates of completion for the last biennial period. (*Note: For efficiencies, auditors may be able to obtain these certifications using the weblink above for the Treasurer of State and the Auditor of State*).

For other subdivisions, please show me your annual certificates of completion. (*Note: For efficiencies, auditors may be able to obtain these certifications using the weblink above for the Treasurer of State*).

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**2-2122 Compliance Requirements and Summaries Thereof:**

Ohio Rev. Code §102.03 - Restrictions and prohibitions.

- This section restricts the conduct of public officials and employees with respect to their official positions. Per Ohio Rev. Code §3314.03(A)(11)(e), Ohio Rev. Code §102 applies to community schools. For fiscal year 2007 audits and later, members of a community school's governing authority cannot be employed by the school or, except in specified circumstances, have an interest in *any* contract awarded by the governing authority.
- Present and former public officials or employees are prohibited during their public employment or for twelve months thereafter from representing any person on any matter in which the public official or employee personally exercised administrative discretion as a public official or employee. (Also known as *the revolving door statute*.) [Ohio Rev. Code §102.03(A)(1)]
- Division (A) of Ohio Rev. Code §102.03 shall not be construed to prohibit performing ministerial functions, including, but not limited to, the filing or amending tax returns, applications for permits and licenses, incorporation papers, and other similar documents. [Ohio Rev. Code §102.03(A)(7)]
- Public officials and employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or to promise or to offer anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties. [Ohio Rev. Code §102.03(D)]
- Public officials and employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon that public official or employee with respect to that person's duties. [Ohio Rev. Code §102.03E)]

**Ohio Rev. Code sections governing interests in contracts by elected officials**

- **Ohio Rev. Code §305.27** Prohibits county commissioners from having an interest in a county contract.
- **Ohio Rev. Code §511.13** Prohibits any member, officer or employee of a board of township trustees from having an interest in any contract the trustees approve.
- **Ohio Rev. Code §731.02** Prohibits members of a city legislative authority from having an interest in any contract with the city.
- **Ohio Rev. Code §731.12** Prohibits members of a village legislative authority from having an interest in any contract with the village.

**Ohio Rev. Code §3313.33** Prohibits board of education members from having a pecuniary interest in a board contract, or from being employed by the board. However, there are exceptions, per Ohio Rev. Code §3313.33(C). You should refer to the statute for details of the exceptions.

**Ohio Rev. Code §2921.42** - Having an unlawful interest in a public contract.

This section prohibits such interests. Ohio Rev. Code §3314.03(A)(11)(e) requires community schools to comply with Ohio's Ethics Law, which, among other things, requires public officials to disclose conflicts of interest and prohibits them from having an interest in a contract awarded by their public office. Effective March 30, 2006, members of a community school's governing authority cannot be employed by

the community school or, except in specified circumstances, have an interest in *any* contract awarded by the governing authority<sup>48</sup>.

**Ohio Rev. Code §9.833(F)** expressly permits a subdivision's officials or employees to serve on the governing board of the program administrator of a governmental self-insurance program, if his or her government participates in that program.

Ohio Rev. Code §**2921.41**- Theft in office.

Public officials committing theft of public property (or services), or who use their offices in committing such acts, or permit their offices to be so used, are in violation of this Section. §2913.01(K) defines "theft."

Ohio Rev. Code §**2921.421** - Assistants and employees of prosecutors, law directors, and solicitors. This section provides procedures for employing persons associated in the private practice of law in these offices.

Ohio Rev. Code §**3329.10** - Purchases of school textbooks and supplies:

Superintendents, principals, teachers, and supervisors are prohibited from acting as sales agents for textbook companies including companies offering electronic textbooks. These school officials are also prohibited from representing companies selling school apparatus or equipment. (Not applicable to community schools.)

Ohio Rev. Code §**117.103 (B) (1)** – [Effective 5/4/2012] A public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment. The auditor of state shall provide a model form on the auditor of state's web site (<https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf>) to be printed and used by new public employees to sign and verify their receipt of information as required by this section. The auditor of state shall confirm, when conducting an audit under section 117.11 of the Revised Code, that new employees have been provided information as required by this division.

1979 Op. Atty. Gen. No. 1979-111 - Incompatibility of public offices: A public officer or employee may be prohibited from holding another public position.

Note: You may find evidence of possible violations of Ohio Rev. Code § 102.03, 2921.41, 2921.42, and 2921.421 from various audit tests. These sections are criminal violations. Auditor of State staff should consult with the State Auditor's Legal Division whenever you suspect possible violations of these sections. Independent public accountants should consult with their own legal counsel.

### **Suggested Audit Procedures - Compliance (Substantive) Tests:**

1. Determine how the entity identifies possible interests on the part of officials and employees in matters coming before them for official action. For example, are officials and employees required to report the outside businesses and organizations they work for to the entity?

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<sup>48</sup> It is permissible for a public official to have an interest in a public contract if (1) the contract covers necessary services or supplies for the official's public office, (2) the services or supplies cannot be obtained elsewhere for the same or lower cost or are being furnished to the public office as part of an ongoing relationship that started prior to the official's involvement with the office, (3) the treatment given to the public office is either preferential to or the same as the treatment given to other clients, and (4) the public office is aware of the official's interest in the contract and the official does not participate in any deliberations regarding the contract [Ohio Rev. Code §2921.42(C)].

2. Inquire if any correspondence was received from the Ohio Ethics Commission regarding ethical violations.<sup>49</sup> If so, read correspondence regarding ethical violations and document the impact of any violations on the audit.
3. Inquire if any conflicts of interest or unethical transactions occurred during this year.
4. Inquire if the entity is aware of any other illegal acts or frauds. (AU-C 240 requires this step. If you already documented this in the FRAQ, you need not repeat this step here.)
5. If the school district purchased textbooks (including electronic textbooks) or school apparatus or equipment during this year, determine how the school assured that no one on the purchasing committee (superintendents, principals, teachers, and supervisors) acted as sales agents for those companies.
6. Determine if the entity notified employees about the new fraud reporting system. Inquire regarding the entity’s process for obtaining and maintaining confirmations from new hires signing off that they have received notification about the fraud reporting system.
7. Select a small number of newly hired employees (hired after 5/4/2012) and review the employees’ confirmations that they have been notified about the fraud reporting system.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

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<sup>49</sup> Auditors and IPAs should not contact the Ethics Commission. If evidence comes to your attention concerning possible ethics violations, IPAs and AOS staff should follow this guidance from the *Ohio Compliance Supplement Implementation Guide*:

Ethics Commission Referrals

All potential “consequential” ethics law violations are to be submitted to the Auditor of State Legal Division. After review, the Auditor of State Legal Division will make appropriate referrals. The Audit Division should consult with the Legal Division in determining how or if to report this matter. IPA’s should consult with the Center for Audit Excellence.

<p><b>Revised: HB 487, 130<sup>th</sup> GA</b> <b>Effective: 9/17/14</b></p>
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**2-2223 Compliance Requirement:** Ohio Rev. Code §149.43 - Availability of public records<sup>50</sup> [Each type of governmental entity has its own records commission as established in Ohio Rev. Code §149.38 - counties, §149.39 - municipalities, §149.41 – school districts and educational service centers<sup>51</sup>, §149.411 - libraries, §149.412 – special taxing districts, & §149.42 – townships.]

**Summary of Requirement:** Ohio Rev. Code §149.011(G) defines a “record” for the public records law, as any document, device, or item, regardless of physical form or characteristic, created, received by, or coming under the jurisdiction of any public office which document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office.

Ohio Rev. Code §149.43(A)(1) defines “public record” as any record that is kept by any public office, including, but not limited to, state, county, city, village, township, and school district units (including community schools). Exceptions are numerous and highly fact-specific. Questions should be referred to AOS Legal for review. Some examples include, but are not limited to, medical records, records pertaining to adoption, probation, and parole proceedings, trial preparation records, usage information (including names and addresses of specific residential and commercial customers of a municipally owned or operated utility), confidential law enforcement investigatory records, records pertaining to abortions by minors (Ohio Rev. Code §2151.85), “security”<sup>52</sup> or “infrastructure”<sup>53</sup> records defined under Ohio Rev. Code §149.43, and records the release of which is prohibited by state or federal law.

All public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall \*make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, public offices shall maintain<sup>54</sup> public records in such a manner that they can be made available for inspection. [Ohio Rev. Code §9.01]

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<sup>50</sup> Ohio Rev. Code § 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Ohio Rev. Code § 149.43. Therefore, AOS interprets the requirements of Ohio Rev. Code § 149.43 described in this OCS step to be applicable to community schools.

<sup>51</sup> This statute applies to each city, local, joint vocational, and exempted village school district as well as each educational service center. However, this statute does not apply to community schools. Community schools do not have a statutory records commission.

<sup>52</sup> “Security” record is defined as any record that contains information directly used for protecting or maintaining the security of a public office against attack, interference or sabotage; or any records assembled, prepared or maintained by a public office or public body to prevent, mitigate or respond to “acts of terrorism” or emergency management plan. [Ohio Rev. Code §149.433(A)(3)]

<sup>53</sup> “Infrastructure” record is defined as any record that discloses the configuration of a public office’s critical systems (e.g., communication, computer, electrical, mechanical, ventilation, water, plumbing, etc.) of the building in which the public office is located. Simple floor plans are not included in this definition. [Ohio Rev. Code §149.433(A)(2)]

<sup>54</sup> Maintaining official records includes recording or copying to reduce storage space by any means which correctly and accurately reproduces, or provides a medium of copying, or reproducing, the original record [Ohio Rev. Code §9.01]. Therefore, scanned documents are considered properly maintained as long as they can be accurately reproduced.



***Public Records Policies and Posters***

Pursuant to Ohio Rev. Code §149.43(E), the Ohio Attorney General shall develop and provide to all public offices a model public records policy for responding to public records requests in compliance with Ohio Rev. Code §149.43 in order to provide guidance to public offices in developing their own public record policies for responding to public records requests in compliance with that section. This model policy is available at:

<http://www.ohioattorneygeneral.gov/files/Publications/Publications-for-Legal/Sunshine-Laws/Model-Public-Records-Policy.aspx>

Pursuant to Ohio Rev. Code § 149.43(B)(2), the entity shall have available a copy of its current records retention schedule at a location readily available to the public. The auditor of state, in the course of an annual or biennial audit of a public office pursuant to Ohio Rev. Code Chapter 117 shall audit the public office for compliance with this section and divisions (E) of Ohio Rev. Code §149.43 [Ohio Rev. Code §109.43(G)] The Auditor of State must ensure compliance with public records policy provisions.

Every public office must have a policy in place for compliance with Public Records Laws. There are three specific items that public offices cannot have in their public records policies. The policy cannot: (1) limit the number of public records it will make available to a single person; (2) limit the number of public records it will make available during a fixed period of time; or (3) establish a fixed period of time before it will respond to a request for inspection/copying of public records unless that period is less than eight hours. However, pursuant to Ohio Rev. Code § 149(B)(7), the policy may limit the number of responses delivered by U.S. Mail to ten per month unless the person certifies to the office in writing that the person does not intend to use or forward the requested records, or the information contained in them, for commercial purposes. For purposes of this division, “commercial” shall be narrowly construed and does not include reporting or gathering news, reporting or gathering information to assist citizen oversight or understanding of the operation or activities of government, or nonprofit educational research. All public offices are required to distribute their Public Records Policy to the employee who is the records custodian/manager of otherwise has custody of the records of that office. Per Bulletin 2007-014, AOS will require written evidence that the records custodian/manager acknowledged receipt of a copy of the policy.

By September 29, 2007, all public offices were required to create a poster describing its public records policy. In addition, the public office is required to post the poster in a conspicuous place in the public office and in all locations where the public office has branch offices. Finally, if the public office has an employee policies and procedures manual or handbook, it is required that the public records policy be included in such manual or handbook. [Ohio Rev. Code §149.43(E)(2)] The AOS will require that: (1) the public office created a poster to describe its Public Records Policy; (2) the poster containing the policy has been posted in required locations; and (3) the policy has been included in the employee manual/handbook.

***Destruction of Public Records***

Any application or schedule for the destruction of records must be sent to the Ohio Historical Society for review to determine whether any of the records are of historical value [Ohio Rev. Code §149.39] Once reviewed by the Ohio Historical Society, the applications are then forwarded to the Ohio Auditor of State’s Office, General Services Department for final approval. [The following governments have separate records commission requirements: Ohio Rev. Code §149.38 - counties, §149.39 - municipalities,

§149.41 – school districts and educational service centers<sup>55</sup>, §149.411 - libraries, §149.412 – special taxing districts, & §149.42 – townships.]

### **Public Records Training**

All state and local elected officials<sup>56</sup>, or their designees<sup>57</sup>, must attend at least 3 hours of training on Ohio's Public Records Laws during each term of office. [Ohio Rev. Code §109.43(B) & §149.43(E)(1)] The training received must be certified by the Ohio Attorney General. Proof that training has been completed must include documentation that either the Attorney General's Office or another entity certified by the Attorney General provided the training to the elected official, or his/her designee. Attendees who successfully complete the training will receive a certificate to serve as proof of training.

Refer to AOS Bulletins 2007-014 and 2011-006 for additional information pertaining to Ohio Public Records Law.

### **Sample Questions and Procedures:**

Unless the prior audit detected noncompliance:

- You can limit steps 1-6 to years in which the auditee adopted or changed its policy.
- Step 7 must be performed every year.
- You can limit steps 8 and 9 to each term of office. The working papers should document whether we tested this in the prior audit.

Ascertain if responsible personnel are aware of the above requirements and have implemented local policies and procedures regarding:

1. What records are made available.
2. Times when records may be reviewed.
3. Costs for copies to be made.
4. Obtain the entity's Public Records Policy and scan it to be sure that the policy does not limit the number of responses that will be made to a particular person, or limit the number of responses during a specified period of time, or establish a fixed period of time before it will respond unless that period is less than eight hours.
5. Ascertain whether the entity's policy for records retention (note: this is not the same policy as the public records policy) includes provisions for the application or schedule for destruction of public records, including transmission to the Ohio Historical Society and approval by the Auditor of State's Office.

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<sup>55</sup> This statute applies to each city, local, joint vocational, and exempted village school district as well as each educational service center. However, this statute does not apply to community schools. Community schools do not have a statutory records commission.

<sup>56</sup> Includes officials elected to local or statewide office, but does not include: justices of the Supreme Court, court of appeals, common pleas, municipal court, county court, or a clerk of any of those courts.

<sup>57</sup> Designees must be employees in the public office and there must be evidence of the designation. If there is more than one elected official in the public office, the designee should be the designee for all of the elected officials within the office.

6. Ascertain whether the entity has a records retention policy readily available to the public.
7. Ascertain whether the entity’s policy was included in policy manuals, and displayed conspicuously in all branches of the public office. As part of this process, determine whether written evidence exists that the Public Records Policy was provided to the records custodian/manager.
8. Determine whether each elected official, or his/her designee, has successfully attended a certified three-hour Public Records Training for each term of office. Obtain copies of their certificates of completion and place them in the permanent file for future reference. For county auditors, confirmation can be obtained by reviewing the County Auditor Continuing Education Status Report available under IPA resources located at: <https://ohioauditor.gov/references/confirmations/hours.html>.
9. If a designee attended the course, determine whether the designee was an employee of the public office and obtained evidence of the designation.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

### SCHOOL AND/OR COMMUNITY SCHOOL

**2-2324 Compliance Requirement:** Ohio Rev. Code §3313.666(A), (B), and (C) and §3314.03(A)(11)(d) Anti-Bullying Provisions

**Summary of Requirements:**

The board of education of each city, local, exempted village, and joint vocational school district and the governing authority of each community (charter) school must adopt an anti-bullying policy in consultation with parents, school employees, school volunteers, students, and community members.

The policy must prohibit the harassment, intimidation, or bullying of any student on school property, on a school bus, or at a school-sponsored activity. It also must define the term "harassment, intimidation, or bullying" in a manner that includes the definition prescribed in Ohio Rev. Code §3313.666(A)(1)-(2). The act defines that term as "an intentional written, verbal, electronic or physical act that a student has exhibited toward another student more than once and the behavior both (1) causes mental or physical harm to the other student, (2) is sufficiently severe, persistent, or pervasive that it creates an intimidating, threatening, or abusive educational environment for the other student and (3) violence within a dating relationship."

Each policy also must include the following additional items (Ohio Rev. Code §3313.666(A), (B), and (C) and §3314.03(A)(11)(d)):

- A procedure for reporting prohibited incidents;
- A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- A requirement that the parents or guardians of a student involved in a prohibited incident be notified and, to the extent permitted by state and federal law governing student privacy, have access to any written reports pertaining to the prohibited incident;
- Procedures for documenting, investigating, and responding to a reported incident;
- A requirement that the district or community school administration provide semiannual written summaries of all reported incidents to the president of the district board of education or community school governing authority, and post them on the district's or school's website (if applicable);
- A strategy for protecting a victim from additional harassment and from retaliation following a report; and
- The disciplinary procedure for a student who is guilty of harassment, intimidation, or bullying.

These items form a framework for districts and community schools to use in developing their policies. The policy must be included in student handbooks and in publications that set forth the standards of conduct for schools and students. Employee training materials must also include information on the policy.

***Auditor of State identification of harassment policy***

***Beginning in fiscal year 2009***, the act **requires** the Auditor of State (or contracting IPAs), when auditing a school district or community school, to identify whether the district or school has adopted an anti-harassment policy. This determination must be recorded in the audit report. The Auditor of State may not prescribe the content or operation of the policy. (Ohio Rev. Code §17.53)

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Inspect the anti-bullying policy the school adopted pursuant to Ohio Rev. Code §3313.666(A), (B), and

(C) (for school districts) or §3314.03(A)(11)(d) (community schools). To comply with this reporting obligation, the Auditor of State and contracting independent accountants must include an additional agreed-upon procedures report describing the procedures applied and the results, for audits of fiscal year ended June 30, 2009 and in subsequent audits until full compliance is obtained<sup>58</sup> This report should appear immediately after the schedule of findings or schedule of prior year audit findings, if applicable. The table of contents should separately list this report. (Because this report is a statutory requirement, we believe it is inappropriate to include it with a management letter.)

Bulletin 2009-010, *School Anti-harassment Policy*, describes the reporting process AOS and IPA’s should use to satisfy these requirements.

(Note: This procedure need not be repeated for future audits once we determine the school has fully complied with this requirement. However, “Full compliance” includes both compliance with the original anti-bullying laws as described in AOS Bulletin 2009-010 and the revision to Ohio Rev. Code §3313.666(A) which requires the addition of violence in a dating relationship, harassment on a school bus, and by electronic means to school district anti-bullying policies. Therefore, fiscal year 2012, (and later year(s) if a district has not fully complied for FYE 2012), school district audits will need to include an Agreed-Upon Procedures report describing the school district’s compliance with the “violence in dating”, school bus, and electronic means revisions until full compliance is achieved.)

<b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b>
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<sup>58</sup> “Full compliance” includes both compliance with the original anti-bullying laws as described in AOS Bulletin 2009-010 and all revisions to Ohio Rev. Code §3313.666(A).

## CHAPTER 3 STEWARDSHIP

Citizens and public officials want and need to know whether governments are handling their funds properly and complying with laws and regulations. Public officials entrusted with public resources are responsible for complying with those laws and regulations. The laws and regulations in this chapter have stewardship considerations that we have deemed significant and therefore require compliance testing.

***Important:***

1. ***If you are auditing an entity with Furtherance of Justice (FOJ) and/or Law Enforcement Trust (LET) funds there are procedures in this chapter that should be performed every year.*** Except for the FOJ and LET yearly procedures, you can **generally** rotate substantive compliance testing in this Chapter. For example, there are 17 compliance requirements in this chapter. (Not all of them apply to all entity types.) You should divide the applicable requirements approximately in half, and test half of them with each audit.
  - a. This applies to annual and biannual audits.
    - i. For example, if you audited officials' surety bonds for a village's 2012 and 2013 audit and found them to be compliant, you normally can omit this test for the 2014 and 2015 audit.
    - ii. This also applies if AUP were performed in the prior year(s). Auditors should select about half of the applicable steps for testing for the audit. Because of the lesser significance of most Chapter 3 requirements, we require no risk assessment or other documentation supporting the steps selected for testing. (Except auditors should apply b. and c. below.)
  - b. You should ***not*** rotate / omit a specific compliance test if the prior audit identified noncompliance or if evidence supports an elevated risk of noncompliance for the current audit.
  - c. You should test new Compliance Supplement requirements in the first year of their applicability.
2. If (1) controls exist to help assure compliance with a specific requirement, and (2) you obtain satisfactory results from testing the controls' operating effectiveness you may be able to limit or omit substantive testing of the requirement.
  - a. Unlike Single Audit requirements, we do not require you to test controls. You should select the most efficient audit strategy that results in sufficient evidence.
  - b. Some of the requirements in this chapter are more likely to be subject to formal controls than are others.
  - c. The AOS believes it is acceptable to rely on the results of prior audit's tests of controls if auditors apply the proper "updating" procedures. That is, auditors may use the concepts from AU-C 330.13 -- .14.
  - d. This approach only requires tests of operating effectiveness once every third year, not every third audit.
    - i. However, the auditor must apply procedures in each intervening year to determine whether continued reliance is appropriate. For example, per AU-C 330.14(a), it is inappropriate to rely on a control that has changed since the auditor's last test of its operating effectiveness.
3. Some steps in the chapter include additional guidance about the extent of testing applicable to that specific compliance requirement.

4. Auditors can normally use the extent of testing described in this chapter. However, if auditors identify specific risks related to specific compliance steps in this chapter, working papers should document these risk assessments, whether they be favorable (which may support less testing) or unfavorable (suggesting additional testing).

This *Ohio Compliance Supplement* chapter provides a simplified process for assessing the government’s compliance with these requirements. Auditors can generally complete these tests using inquiry, observation and, occasionally, certain other limited substantive procedures, such as inspection of documents or limited vouching.

As stated above, auditors should divide the steps subject to cycling approximately in half, and budget a similar amount for cyclic tests each audit to avoid audit cost fluctuations every other audit unless the risk of noncompliance warrants testing of these requirements every audit.

**The *Sample Questions and Procedures* this chapter presents are merely examples of procedures you might use.** You should add to, modify, or omit these procedures as appropriate in the circumstances. If existing control tests or substantive compliance tests satisfy these objectives, the auditor should cross-reference this work to these sections.

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## GENERAL

**3-1 Compliance Requirement:** Ohio Rev. Code §9.38 - Deposits of public money.

**Summary of Requirement:** Public money must be deposited with the treasurer of the public office *or* to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

For example, a government employee, other than the fiscal officer collecting funds and issuing a receipt, must deposit the funds with the government's fiscal officer on the business day following the day of receipt. As an alternative to depositing the funds with the government's fiscal officer, the employee instead may deposit funds with the government's designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 **and** the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

**Note:** This section does not require the **fiscal officer** to deposit receipts with the designated depository on the business day following the day of receipt, or any other specified time. However, if the fiscal officer is holding significant amounts of cash and checks for an unreasonable period, you should make an internal control recommendation.

Auditors should be aware of this requirement, especially when testing governments with multiple cash collection points. Auditors should consider whether controls over cash collection points are adequate, including whether cash is timely deposited.

**Also:** Prisoners placing personal phone calls from the phones located in the county and city jails must place collect phone calls. To enable prisoners to place collect calls the County Sheriff and/or the City Police Chief may enter into agreements/contracts with long distance carriers. Often times to attract business, long distance carriers offer incentives such as refunds and/or rebates based on usage. Jail officials and employees must deposit rebates and refunds in accordance with 9.38.

**Sample Questions and Procedures:**

**Note: To enhance efficiencies, we should integrate the tests below with the financial audit tests. We should only cite noncompliance if we determine significant amounts of cash are not deposited within the required time frames.**

1. Systems documentation should include collection points receiving significant amounts of cash.
2. When testing cash collections, document the date collected vs. the date deposited to the CFO or the date the "collector" deposited to a designated depository.
3. Read any new contract/agreement between the county sheriff/police chief and his/her long distance carrier. If incentives are granted, review the accounting treatment of the incentives.

Determine if phone contract monetary refunds and or rebates were paid into the treasury in accordance with Ohio Rev. Code §9.38.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**3-2 Compliance Requirement:** Ohio Rev. Code §121.22 - Meeting of public bodies to be open, exceptions, and notice.

**Summary of Requirement:** All meetings of any public body (including community schools) are to be open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions. [Ohio Rev. Code §121.22(C)]

Every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media that have requested immediate notification. [Ohio Rev. Code §121.22(F)]

The members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting solely to consider any of the following matters [Ohio Rev. Code §121.22(G)(8):

- (1) The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official licensee, or regulated individual requests a public hearing;
- (2) The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest.
- (3) Conferring with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action.
- (4) Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment.
- (5) Matters required to be kept confidential by federal laws or rules or state statutes.
- (6) Specialized details of security arrangements and emergency response protocols where disclosure of the matters discussed could reasonably be expected to jeopardize the security of the public body or public office.
- (7) In the case of a county hospital operated pursuant to Ohio Rev. Code Chapter 339, a joint township hospital operated pursuant to Ohio Rev. Code Chapter 513, or a municipal hospital operated pursuant to Ohio Rev. Code Chapter 749, to consider trade secrets, as defined in Ohio Rev. Code § 1333.61.
- (8) Confidential information related to the marketing plans, specific business strategy, production techniques, trade secrets, or personal financial statements of an applicant for economic development assistance, or to negotiations with other political subdivisions respecting requests for economic development assistance, provided that both of the following conditions apply:
  - 1 The information is directly related to a request for economic development assistance that is to be provided or administered under any provision of Ohio Rev. Code Chapters 715, 725, 1724, or 1728 or sections 701.07, 3735.67 to 3735.70, 5709.40 to 5709.43, 5709.61 to 5709.69, 5709.73 to 5709.75, or 5709.77 to 5709.81, or that involves public infrastructure improvements or the extension of utility services that are directly related to an economic development project.

2. A unanimous quorum of the public body determines, by a roll call vote, that the executive session is necessary to protect the interests of the applicant or the possible investment or expenditure of public funds to be made in connection with the economic development project.

Veterans' Service Commissions also may meet in executive session for the following purposes [Ohio Rev. Code § 121.22(J)]:

- (a) Interviewing an applicant for financial assistance under Ohio Rev. Code § 5901.01 to 5901.15;
- (b) Discussing applications, statements, and other documents described in division (B) of Ohio Rev. Code § 5901.09;
- (c) Reviewing matters relating to an applicant's request for financial assistance under Ohio Rev. Code § 5901.01 to 5901.15.

A resolution, rule, or formal action of any kind is invalid unless adopted in an open meeting of the public body. A resolution, rule, or formal action adopted in an open meeting that results from deliberations in a meeting not open to the public is invalid unless the deliberations were for a purpose specifically authorized above. [Ohio Rev. Code §121.22(H)]

**Note: Per OAG Opinion 2007-019**

1. Neither the Ohio Revised Code nor generally accepted rules of parliamentary procedure require a board of township trustees to vote to approve the minutes of its regular meetings. Except: A board of township trustees may be required by a formal motion of a trustee or the board's rules for meeting procedure to vote to approve the minutes of a regular meeting. When a board of township trustees is required to vote to approve the minutes of a regular meeting, the vote must follow the board's rules for meeting procedure.
2. A board of township trustees is not required by statute to prepare and distribute to the public or media a written agenda for a regular meeting.

**Note: Per OAG Opinion 2014-005 and Auditor of State bulletin 2014-004**

State and local governments may contract with private companies to organize and conduct telephone town hall meetings.

- Entities should have policies and procedures governing the expenditure of public funds for telephone town hall meetings and the hiring of private companies to organize and conduct telephone town hall meetings;
- As with traditional town hall meetings, public offices should keep:
  - An agenda which formally documents the proposed topics and invitees at each telephone town hall meeting;
  - Evidence of the topics covered, such as minutes;
  - A document retention schedule for public records used during telephone town hall meetings.
- If your public office uses restricted dollars to organize a telephone town hall meeting, the proposed subject of the meeting must relate to the restricted fund's purpose. For example, a meeting to discuss water utility rates should not be billed to the road and bridge fund.
- Reasonable notice must be given to the general public that a public meeting is taking place. The Attorney General correctly notes the strong tradition of citizens exercising their free speech rights to elected officials. Without reasonable notice, Ohioans will lack that opportunity. Notice should include when the meeting is taking place, the proposed topic, and how the public may join. For the purposes of meeting "safe harbor" under this bulletin, the official or officials calling the

meeting shall give at least twenty-four hours' advance notice to the news media that have requested notification of the time, place, and purpose of the meeting.

**Sample Questions and Procedures:**

1. How does your entity notify the general public and news media of when and where meetings are to be held?
2. Determine whether the minutes of public meetings are promptly recorded and available for public inspection.
3. Review the minutes and determine if executive sessions are only held at regular or special meetings.
4. Document that executive sessions are only held for the purposes outlined above.
5. Determine whether all formal governing board actions are adopted only in open meetings.

Note: If telephone "tele" town hall meetings were held test the above listed documentation per Auditor of State bulletin 2014-004.

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**Only test the compliance attributes listed in 3-3 below if one of the officials listed below were selected as part of your sample for payroll testing.**

### 3-3 Compliance Requirements: Ohio Rev. Code:

#### Schools:

§3311.19 and 3313.12 - School board compensation and mileage  
 §3314.02(E)(4) - Compensation of School Board<sup>1</sup>  
 §3313.24 - Compensation of School Treasurer<sup>2</sup>  
 §3319.01 - Appointment and duties of superintendent (including compensation)  
 §3319.02 - Appointment of other (school) administrators, evaluation; renewal; vacation leave  
 §3319.08 - Teacher employment and reemployment contract  
 §3319.10 - Employment and status of substitute teachers  
 §3319.081 - Contracts for non-teaching employees  
 §3319.0810 - Contracts for transportation staff  
 §2921.43(A)(1) and Ohio Ethics Commission Op. No. 2008-01 – Compensation of school employees by outside organizations<sup>3</sup>

#### Courts:

§141.04 and 141.05 - Compensation of judges (court of common pleas, including probate court judges)  
 §2151.13 - Employees; compensation (courts).  
 §1907.16 and 1907.17 - Compensation of (county court) judges  
 §2303.03, 2501.16, and 2501.17 - Officers and employees (courts of appeals)  
 §1907.20 - Clerks (court of common pleas)  
 §1901.11 - Compensation of judges (Municipal Court)

<sup>1</sup> Under Ohio Rev. Code §3314.02(E)(4), start-up school governing authorities to provide by resolution for compensation of their members, provided that an individual is compensated no more than \$425 per meeting or a total of \$5,000 per year for all of the governing authorities on which the individual serves. The maximum number of governing authorities of start-up community schools on which a person can serve at the same time is five (Ohio Rev. Code § 3314.02(E)(2)). A new start-up school means a community school other than one created by converting all or part of an existing public school or educational service center building, as designated in the school's contract pursuant to division (A)(17) of section 3314.03 of the Revised Code.

<sup>2</sup> ODE has indicated that, under Ohio law, treasurers must account for/administer all school district funds and accounts. In addition, Ohio law states that a treasurer's salary must be fixed and payable from the General Fund. Therefore, in the absence of an ODE-approved indirect cost allocation plan, it is not permissible to charge various State and/or Federal programs for supplemental compensation related to the Treasurer's statutory duties associated with these programs. Any such charges are unallowable under Ohio law and ~~OMB Circular A-87~~ (2 CFR 225, Appendix A, part C.1.c) because in order for a Federal program cost to be allowable it must be reasonable. In order to be reasonable it must be authorized or not prohibited under State or local laws or regulations. (~~OMB Super Circular §200.404~~). These charges may also qualify as supplanting under Federal guidelines if supplement not supplant provisions accompany the particular Federal award(s) being charged. However, if the treasurer can prove that he/she was assigned to non-treasurer duties and was compensated additionally for those, then we will not take exception to the compensation.

<sup>3</sup> Ohio Ethics Commission Opinion No. 2008-01 prohibits a school employee (including coaches, teachers, administrators, supervisors, district officials, management level employees regardless of his or her duties) from being compensated for services provided for a school-related activity by any source other than the employing school. That is, booster groups and school support organizations are prohibited from promising or providing any compensation to a school employee for performing their duties at a school or school-related activity. This opinion applies to officials and employees of all school districts, educational service centers (ESCs), and community schools operating under Ohio Rev. Code §3314.03.

§1901.31 and 1901.32 - Clerks; deputy clerks; bailiffs (Municipal court)  
 §141.04 (A) (3) - Compensation of judges (appellate court judges)

**Libraries:**

§3375.32 - Meeting of boards of library trustees; organization; election of clerk; bond.  
 §3375.36 - Treasurer of library (deputy clerk)  
 §3375.40 - Powers of boards of library trustees (compensation of employees)

**Municipalities:**

§731.07, 731.08, and 731.13 and 1973 Op. Atty Gen. No. 73-063 and 1983 Op. Atty Gen. No. 83-036 - Compensation (municipal officials)

**Counties:**

Chapter 325 - Compensation of county officials: auditor, 325.03; treasurer, 325.04; sheriff, 325.06; common pleas clerk, 325.08; recorder, 325.09; commissioners, 325.10; prosecutor, 325.11; engineer, 325.14; coroner, 325.15; vacation and holiday pay, 325.19; Op. Atty Gen No. 99-033 – in-term increase in compensation based on change in population according to decennial census (see Auditor of State Bulletin 99-015).

**Townships:**

§505.24 (trustees)<sup>4</sup> (see also compliance requirement **1-29**), 505.60 (insurance - also see compliance requirement **3-16**), 507.09 (clerk)<sup>5</sup> - compensation for township officials, and 505.71 – compensation for joint ambulance district trustees. Also, 1999 Op. Atty Gen. No 99-015 – Definition of “budget” for purposes of compensation (see Auditor of State Bulletin 99-008).

NOTE: IRS Notice 2013-54 and Department of Labor Technical Release 2013-03 states that employers may only reimburse employees’ premiums for non-employer sponsored health care with post-tax dollars (i.e. employers must withhold taxes prior to making reimbursement). However, these reimbursements will not be used in computing allowable “gross salary” as prescribed in Ohio Rev. Code §505.24 and §505.09.

**County Hospitals:**

§339.03 - Board of county hospital trustees; powers and duties  
 §339.06 – Powers and duties of board of county hospital trustees

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<sup>4</sup> Each salaried township trustee shall certify the percentage of time spent working on matters to be paid from the township general fund and from other township funds in such proportions as the kinds of services performed. A noncompliance citation would be issued instead of a Finding for Adjustment if the Township has reasonable supporting documentation (such as detailed time and effort records, timesheets, etc.). In addition, the certification should be signed retroactively and attached to the time and effort records. Refer to AOS Bulletin 2011-007 and 2013-002 for examples and further guidance.

<sup>5</sup> A township fiscal officer may be compensated from the township general fund or from other township funds based on the proportion of time the township fiscal officer spends providing services related to each fund. A township fiscal officer must document the amount of time the township fiscal officer spends providing services related to each fund by certification specifying the percentage of time spent working on matters to be paid from the township general fund or from other township funds in such proportions as the kinds of services performed. Refer to AOS Bulletin 2011-007 and 2013-002 for examples and further guidance.

**Municipal Hospitals:**

§749.33 - Employment and compensation of superintendents, physicians, and employees (municipal hospitals)

**Universities:**

Ohio State University [§3335.02(A)], Ohio University [§3337.01(A)], Miami University [§3339.01(A)], Bowling Green and Kent State Universities [§3341.02(E)], Central State University [§3343.05], Cleveland State University [§3344.01(A)], Wright State University [§3352.01(A)], Youngstown State University [§3356.01], University of Akron [§3359.01(A)], University of Toledo [§3364.01(B)], University of Cincinnati [§3361.01(A)], Shawnee State University [§3362.01(A)], Community College Districts [§3354.06], Technical Colleges [§3357.06], State Community Colleges [§3358.03], University Branch Districts [none specified]. - Compensation of trustees.

**Summary of Requirement:** All of these various sections set out authority for appointing and/or compensating officials and employees of the various entities. For additional information and salary schedules for elected officials, see the *Elected Officials' Compensation Exhibit 4* in the OCS Implementation Guide.

<b>POSSIBLE NONCOMPLIANCE RISK FACTORS:</b>
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<p><b>Note:</b> Auditors should consider whether governments have historically demonstrated effective internal controls over payroll. Additionally, adequate training of payroll personnel and supervisory monitoring controls can help mitigate the risk of noncompliance with compensation compliance requirements.</p>
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**Sample Questions and Procedures:**

~~Except for the two requirements described below, tests of payroll disbursement should normally address these requirements. You should include a few payments to elected officials in these tests. For those~~ If officials were included in your payroll test, agree their pay rate to OCS Compensation Exhibit amounts. Officials who have a salary set by statute, cannot receive PERS pick up if the additional compensation (in the form of PERS pickup) would result in receiving total compensation greater than the statutory limit. Therefore, we should calculate salary plus PERS pickup, if applicable, and compare this total compensation to the statutory limit. Compensation amounts exceeding the statutory limit should be findings for recovery if they meet the threshold guidelines.

- For community schools, inquire whether its board members also serve on the boards of other community schools. If so, inquire how the community school assures it is not paying these board members more than the statutory limit. (See the requirement described in the footnote above per Ohio Rev. Code §3314.02(E)(4).)
- Per the footnote regarding school treasurer compensation, compare total compensation per the payroll register to the amount in the treasurer's contract. If the register reports compensation exceeding the contract amount, determine if these payments were allowable per the footnote.

<p><b>Conclusion:</b> (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</p>
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**3-4 Compliance Requirements and Summaries Thereof:**

Ohio Rev. Code §9.03 - Political subdivision newsletters and other means of communication.

No governing body of a political subdivision shall use public funds to publish, distribute, or communicate information that supports or opposes the nomination or election of a candidate for public office, the investigation, prosecution, or recall of a public official, or the passage of a levy or bond issue. In addition, no public funds shall be used to compensate any employee of the political subdivision for time spent on any activity to influence the outcome of an election for any of the purposes described above. However, public funds may be used to publish information about the political subdivision's finances, activities, and governmental actions in a manner that is not designed to influence the outcome of an election or the passage of a levy or bond issue. Public funds may also be used to compensate an employee for attending a public meeting to present such information in such a manner even though the election, levy, or bond issue is discussed or debated at the meeting.

However, this Section specifically exempts Alcohol Drug Addiction and Mental Health (ADAMH) Boards from the prohibition against using public funds to support a levy or a bond issue. ADAMH Boards are specifically authorized by Ohio Rev. Code § 340.03(A)(7) to use their public funds to obtain further financial support for their activities.

Ohio Rev. Code §124.57 - Political activity prohibited.

This section imposes restrictions upon the political activity of employees in the classified service of the State, counties, cities, city school districts, and civil service townships.

Ohio Rev. Code §124.59 - Payment for appointment or promotion prohibited.

Applicants for appointment or promotion in the classified service shall not pay for appointments or promotions.

Ohio Rev. Code §124.61 - Abuse of political influence.

Public officials (or potential public officials) shall not use or promise to use, any official authority or influence in order to secure or aid any person in securing any office or employment in the classified service, or any promotion or increase of salary therein, as a reward for political influence or service.

Ohio Rev. Code §3315.07 (C) - Support of school ballot issues.

No board of education shall use public funds to support or oppose the passage of a school levy or bond issue or to compensate any school district employee for time spent on any activity intended to influence the outcome of a school levy or bond issue election. However, the law specifically allows a school board to allow its employees to attend public meetings during working hours to give informational presentations regarding the district's finances and activities, even if the purpose of the meeting is to debate the passage of the school levy or bond issue.

**Sample Questions and Procedures:**

1. Inquire if the CFO is aware of these requirements and what controls the entity has established to prevent violations. Controls should include:
  - Policies or published notifications to employees regarding these requirements.
  - A requirement for a person knowledgeable of these requirements to review and approve payment requests.
  
2. Inquire if the CFO is aware of any possible violations. If so, or if other evidence comes to your attention suggesting violations may have occurred, investigate the allegations as needed.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**3-5 Compliance Requirement:****General**

Ohio Rev. Code §3.06 - Unless other statutes prescribe a bond for particular officials (such as for the officials listed in OCS Bonding Exhibit 2 of the OCS Implementation Guide), Ohio Rev. Code §3.06(B) permits “. . . any department or instrumentality of the state or any county, township, municipal corporation, or other subdivision or board of education or department or instrumentality thereof, may procure a blanket bond from any duly authorized corporate surety covering officers, clerks and employees, other than. . .” treasurers or tax collectors and any officer, clerk or employee required by law to execute or file an individual official bond to qualify for office or employment.

Ohio Rev. Code §3.06 also requires “Any such blanket bond shall be approved as to its form and sufficiency of the surety by the officer or governing body authorized to require it.”

Ohio Rev. Code §3.30 - Failure to give bond deemed refusal of office.

A number of specific bonding requirements have been prescribed by statute for various public officers and employees. See *OCS Implementation Guide Exhibit 2 – Public Officers’ Bond* for the requirements applicable to county, city, township, school, and library officials.

**Universities (all universities listed below require Attorney General approval of their bonds unless otherwise indicated):**

Ohio State University [§3335.05], Ohio University [none specified], Miami University [none specified], Bowling Green and Kent State Universities [§3341.03], Central State University [§3343.08], Cleveland State University [§3344.02], Wright State University [§3352.02], Youngstown State University [§3356.02], University of Akron [§3359.02], University of Toledo [§3364.02, which does not require Attorney General approval, effective July 1, 2006], University of Cincinnati [§3361.02], Shawnee State University [§3362.02, which does not require Attorney General approval, effective September 29, 2005], Community College Districts [none specified], Technical Colleges [none specified], State Community Colleges [§3358.06], University Branch Districts [§3355.051].

These compliance requirements apply to all state universities except Ohio and Miami Universities and the Medical College of Ohio at Toledo, and are also not specified for certain other types of institutions. If a deficiency is noted for institutions not listed above, treat it as a potential management comment rather than a noncompliance finding.

**Community Schools**

Ohio Rev. Code §3314.011 - Every community school established under this chapter shall have a designated fiscal officer. The Auditor of State may require by rule (see Ohio Admin. Code § 117-6-07 below) that the fiscal officer of any community school, before entering upon duties as the fiscal officer of the school, execute a bond in an amount and with surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor.

Ohio Admin. Code § 117-6-07 requires a community school fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Rev. Code §3314.011. The governing authority prescribes the bond amount and surety by resolution.

**Summary of Requirement:** These sections provide requirements for bonding certain public officials and employees.

**Sample Questions and Procedures** [See the *OCS Implementation Guide Exhibit 2 – Public Officers’ Bond* for details of requirements applicable to county, city, township, school, and library officials.]:

1. How do you determine who is required to be bonded?
2. Do you have blanket bonds on officials or employees? How do you determine whether employees are eligible for such blanket bonding?
3. If the amount of the bond is not specified by statute, inquire how the government determined whether amounts of the bonds are commensurate with the duties of their office, i.e., amount of funds for which the individual is responsible, limits of liability, etc. If the bond seems unreasonable, consider issuing a management comment.
4. Please show me a few representative bonds.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**COMMUNITY SCHOOLS**

**3-6 Compliance Requirement:** Ohio Rev. Code §3314.08(G) Foundation anticipation notes.

**Summary of Requirement:** A community school may borrow money to pay any necessary and actual expenses in anticipation of State Foundation receipts. The school may issue notes to evidence such borrowing. The proceeds of the notes shall be used only for the purposes for which the school may lawfully expend the anticipated foundation receipts. [Ohio Rev. Code § 3314.08(G)(1)(a)]

A community school cannot issue debt secured by taxes. [Ohio Rev. Code §3314.08(E)]

A school may also borrow money for a term not to exceed fifteen years to acquire facilities. [Ohio Rev. Code §3314.08(G)(1)(b)]

**Sample Questions and Procedures:**

By reading the minutes, inspecting receipts journals, and by inquiry determine whether or not the School issued any type of debt.

Examine disbursements made of the proceeds to determine that they were used only for the purposes described in the debt agreement.

~~Determine that moneys borrowed to acquire facilities are for a term of fifteen years or less, and were not collateralized by taxes.~~

~~Determine that moneys borrowed to acquire facilities are for a term of fifteen years or less.~~

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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**COMMISSARIES**

**3-7 Compliance Requirement:** Ohio Rev. Code § 307.93(F), 341.25, 753.22, and 2301.57 - Establishment and accounting treatment for commissaries.

**Summary of Requirements:** Commissaries may be established by a sheriff of a county jail, the director of public safety or the joint board that administers a municipal or municipal-county workhouse, the director of a community-based or district community-based correctional facility, or the corrections commission of a multicounty, municipal-county, or multicounty-municipal correctional center. Once a commissary is established, all persons incarcerated must be given commissary privileges. In addition, the commissary fund rules and regulations for the operation of the commissary must be established by the person establishing the commissary for the correctional facility. The commissary fund must be managed in accordance with the procedures established by the Auditor of State's Office, which are included in **Auditor of State Bulletin 97-011**<sup>6</sup>. The revenue generated in the commissary fund in excess of operating costs is considered profit. The profits must be expended for the purchase of supplies and equipment, life skills training, education and/or treatment services for the benefit of persons incarcerated in the correctional facility.

**Sample Questions and Procedures:**

1. Read the commissary funds rules and regulations to determine if they are consistent with AOS Bulletin 97-011.
2. Scan selected expenditures from this fund. Determine that expenditures were for the benefit of those incarcerated (see list of acceptable expenditures above). Note: We do not require high levels of assurance from this procedure. Therefore, the sample sizes we require to obtain high assurance do not apply. Scanning alone should normally be sufficient, unless we have reason to suspect there are significant control or compliance issues.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

<sup>6</sup> AOS Bulletin 97-011 permits correctional facilities to issue a check to an inmate for the balance of the inmate's commissary account. Contrary to AOS Bulletin 97-011, Ohio Rev. Code § 341.25 also permits profits from the commissary fund to be used to pay salary and benefits for employees of the sheriff who work in or are employed for the purpose of providing service to the commissary. Therefore, auditors should consider these items to be allowable costs of the Commissary Fund. The Auditor of State will also permit correctional facilities to develop reasonable policies and procedures for the use of debit cards, in lieu of a check, when disbursing remaining balances, less amounts owed to the correctional facility, of inmate commissary funds.

## COURTS

**3-8 Compliance Requirement:** Ohio Rev. Code §2335.34 - Lists of unclaimed costs. Ohio Rev. Code §2335.34-35 - Disposition of unclaimed fees and costs.

**Summary of Requirements:** On the first Monday of January, the clerk of each

- common pleas court clerk (or clerks from divisions of a common pleas court, such as a juvenile court clerk, domestic relations court clerk, etc.)
- court of appeals clerk
- probate judge clerk
- sheriff

shall make two certified lists of unclaimed fees and costs outstanding for one year, and post the list in her/his office and the courthouse for 30 days. One list is required to be posted in his/her office and the other list shall be posted at a public area of the courthouse or published on the web site of the court or officer, on the second Monday of January. Both lists must be posted for a period of 30 days. [Ohio Rev. Code §2335.34]

After the aforementioned 30 day period, the clerk or sheriff must pay the money to the county treasury. Each such officer shall indicate in her/his cashbook and docket the disposition of each unclaimed item. [Ohio Rev. Code §2335.35]

### POSSIBLE NONCOMPLIANCE RISK FACTORS:

**Note: Due to the large volume of over the counter cash receipts and the complexity of statutory fines and fees, the risk of noncompliance in courts is inherently higher. In assessing the risk of noncompliance, auditors should consider whether courts have historically demonstrated effective internal controls and compliance with applicable requirements. Additionally, adequate training of court personnel, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with court requirements.**

### Sample Questions and Procedures:

1. Describe procedures used to assure the list is maintained completely and accurately (these objectives will usually be addressed by the procedures used to maintain other required court records).
2. Please show me how you reconcile the unclaimed amounts to balances held in the bank.
3. Please show me your most recent listing of unclaimed funds.
4. How much was paid to the county for unclaimed funds during the year under audit?

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**3-9 Compliance Requirement:** Ohio Rev. Code §1907.20 - Records required of county courts.

**Summary of Requirement:** County courts must maintain a general index and a docket.

On the first Monday of each January, the clerk must list all cases more than one year past for which money has been collected but unclaimed. The clerk must transmit notice of unclaimed funds to the party or to the party’s attorney. Money still unclaimed each April 1 must be paid to the county treasury. (Note: the funds remain the property of the potential claimant per Ohio Rev. Code §1907.20(D))

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note: Due to the large volume of over the counter cash receipts and the complexity of statutory fines and fees, the risk of noncompliance in courts is inherently higher. In assessing the risk of noncompliance, auditors should consider whether courts have historically demonstrated effective internal controls and compliance with applicable requirements. Additionally, adequate training of court personnel, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with court requirements.**

**Sample Questions and Procedures:**

1. Are the aforementioned records maintained? (Note: We will normally know this from performing financially-related audit procedures.)
2. Describe procedures used to assure that these records are complete and accurate (e.g., supervisory reviews). Note: We include this step here for emphasis, though it should be part of the financial audit tests and does not require additional testing for Ohio Rev. Code purposes.
3. Please show me an example of the correspondence you send regarding unclaimed funds to the party or to their attorney.
4. How do you identify amounts unclaimed for more than one year?
5. Show me your reconciliation of cash balances to the detailed listing of unclaimed funds.
6. How much was paid to the county for unclaimed funds during April of the year under audit?

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**



**3-10 Compliance Requirement:** §1901.31---.Ohio Rev. Code- Municipal court records.

**Summary of Requirement:** Municipal court clerks must maintain a general index and a docket. [Ohio Rev. Code §1901.31(E)].

On the first Monday of each January, the clerk must list all cases more than one year past for which money has been collected but unclaimed. The clerk must transmit notice of unclaimed funds to the party or to the party's attorney. Money still unclaimed each April 1 must be paid to the municipal treasury (or county treasury, if it is a county-operated municipal court). [Ohio Rev. Code §1901.31(G)]

(Note: the funds remain the property of the potential claimant. That is, the government is holding this cash similar to an agent on behalf of the claimant.)

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note: Due to the large volume of over the counter cash receipts and the complexity of statutory fines and fees, the risk of noncompliance in courts is inherently higher. In assessing the risk of noncompliance, auditors should consider whether courts have historically demonstrated effective internal controls and compliance with applicable requirements. Additionally, adequate training of court personnel, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with court requirements.**

**Sample Questions and Procedures:**

1. Are the aforementioned records maintained? (Note: We will normally know this from performing financially-related audit procedures.)
2. Describe procedures used to assure that these records are complete and accurate (e.g., supervisory reviews). Note: We include this step here for emphasis, though it should be part of the financial audit tests and does not require additional testing for Ohio Rev. Code purposes.
3. Please show me an example of the correspondence you send regarding unclaimed funds to the party or to their attorney.
4. How do you identify amounts unclaimed for more than one year?
5. Show me your reconciliation of cash balances to the detailed listing of unclaimed funds.
6. How much was paid to the county for unclaimed funds in April following the year under audit?

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**3-11 Compliance Requirement:** Ohio Rev. Code §1905.21 - Docket; disposition of receipts. Ohio Rev. Code §733.40 - Disposition of fines and other moneys for mayor’s court.

**Summary of Requirements:** The mayor of a municipal corporation and a mayor's court magistrate shall keep a docket. [Ohio Rev. Code §1905.21]

All moneys collected shall be paid by the mayor into the municipality on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury. [Ohio Rev. Code §733.40]

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note: Due to the large volume of over the counter cash receipts and the complexity of statutory fines and fees, the risk of noncompliance in courts is inherently higher. In assessing the risk of noncompliance, auditors should consider whether courts have historically demonstrated effective internal controls and compliance with applicable requirements. Additionally, adequate training of court personnel, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with court requirements.**

**Sample Questions and Procedures:**

The financial audit procedures would normally include these steps. It is sufficient to cross reference results from financial audit procedures satisfying these requirements to this step without the need for any other procedures.

1. Do you maintain a docket?
2. How do you assure that the docket is maintained completely and accurately?
3. Do you submit the required statement each month? Please show me \_\_\_\_\_ (pick a few monthly statements and have personnel walk you through them).
4. Describe procedures used to assure that the statement is complete and accurate.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**3-12 Compliance Requirements:** The following is a list of courts and of the related statutory provisions (all references are to the Ohio Revised Code Section) for the collection, custody, and disbursement of fees, fines, costs, and deposits.

2746.01	All courts of record (primarily in civil cases)
2746.02	All courts of record (in criminal and juvenile cases and some civil actions related to criminal cases)
2746.03	Supreme Court, courts of appeals, Court of Claims (in addition to the charges applicable in all courts of record)
2746.04	Courts of common pleas (in certain civil cases, in addition to the charges applicable in all courts of record)
2746.05	Juvenile courts (in addition to the charges applicable in all courts of record and the courts of common pleas)
2746.06	Probate courts (in addition to the charges applicable in all courts of record and the courts of common pleas, subject to any waiver of fees for combat zone casualties under Ohio Rev. Code § 2101.164 and any reduction of fees that Ohio Rev. Code § 2101.20 allows the judge to make)
2746.07	Municipal courts (in addition to the charges applicable in all courts of record and the courts of common pleas)
2746.08	County courts (in addition to the charges applicable in all courts of record and the courts of common pleas)

#### ***Municipal Court***

1901.14	Powers of judge; fees; rules; annual reports
1901.26	Costs for operation of the court and special projects <sup>7</sup>
1901.261	Additional fees for computerization of court or office of clerk of court*
1901.262	Fee for dispute resolution
1901.31	Clerk of Court, powers and duties
2951.021	Supervision fees (Probation)
2949.094(A)	15% Add-on fee for indigent alcohol treatment fund
4511.193	Fee for indigent alcohol treatment fund

#### ***Mayor's Court***

733.40	Disposition of fines and other moneys
1907.261	Fees for computerization of clerk of court office * (applies per 1905.02)
2949.094(A)	15% Add-on fee for indigent alcohol treatment fund <sup>8</sup>
4511.193	Fee for indigent alcohol treatment fund

#### ***County Court***

1907.20	Clerk of county court, powers and duties
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<sup>7</sup> Ohio Rev. Code § 1901.26(A)(1)(b)(i) authorizes municipalities to establish fees for services related to a municipal court performed by officers or other employees of the municipal corporation's police department or marshal's office of any of the services specified in Ohio Rev. Code § 311.17 and 509.11 5. The act provides that no fee in the schedule may be higher than the fee specified in Ohio Rev. Code § 311.17 for the performance of the same service by the sheriff. If a fee set by municipal ordinance conflicts with a fee for the same service established in a statute or rule of court, the fee established in the statute or rule applies.

<sup>8</sup> Per Ohio Rev. Code § 733.40, distribution of the 15% referenced in 2949.094(A) depends on whether, it was a moving violation based on a statute or an ordinance. If the fine was collected based on violation of a statute then the money goes into the County Treasury; if the fine was collected based on a violation of a municipal ordinance, then the 15% goes into the municipal treasury.

1907.24	Schedule of fees and costs and disposition
1907.26	Disposition of fees and costs
1907.261	Additional fees for computerization of court or office of clerk of court*
1907.262	Fee for dispute resolution
2949.094(A)	15% Add-on fee for indigent alcohol treatment fund
4511.193	Fee for indigent alcohol treatment fund

**Probate Court**

325.28	Receipt for fees
2101.12	Records to be kept; indexes
2101.15	Probate judge to file itemized account of fees to county auditor
2101.16	Fees and costs generally
2101.162	Additional fees for computerization of court or office of clerk of court*
2101.163	Fee for dispute resolution
2101.17	Fees from county treasury
2101.20	Reduction of fees (if collected fees exceed court salary costs)
2333.26	Fees of probate court
3113.34	Additional fee for marriage license; fee for domestic violence shelter
3705.21	Registration of marriages, divorces, dissolutions, annulments
5310.05	Assurance fund rate
5310.06	Monthly payments of money to treasurer of state, investment of funds
5310.15	Miscellaneous Fees

**Juvenile Court**

325.28	Receipt for fees
2151.54	Fees and costs generally
2151.541	Additional fees for computerization of court or office of clerk of court*
2949.094(B)	15% Add-on fee for indigent alcohol treatment fund
4511.193	Fee for indigent alcohol treatment fund

**Court of Common Pleas**

325.28	Receipt for fees
2301.031	Fee for computerization of domestic relations division
2303.20	Fees and costs generally
2303.201	Computerizing court or paying cost of computerized legal research *
2303.22	Costs and fees taxed upon writs
2335.35	Disposition of unclaimed fees and costs
2335.37	Payment of certain costs to county treasury
2335.241	Interest on certificates of judgment; computerization of court/ clerk's office (Note: Ohio Rev. Code §2335.241 is not subject to the computerization fee restrictions of Bulletin 2005-003 discussed on the following page.)
3109.14	Fees for birth and death records and disposition of divorce or dissolution filings; Children's trust fund
2951.021	Supervision Fees (Probation)
4505.14	Fees for lists of title information
4519.59	Fees for certificate of title
4519.63	Preparation and furnishing title information; Fees
4519.69	Fee for processing physical inspection certificate
5310.05	Assurance fund rate
5310.06	Monthly payments of money to treasurer of state, investment of funds
5310.15	Miscellaneous Fees

**Court of Appeals**

2501.16 Clerk of Court, powers and duties; fees for special projects  
2303.20 Fees & Costs Generally (applies via 2501.16 & 2303.03)

**All Courts**

2335.30 Posting table of fees  
2743.70 Fine to fund reparations payments (collection and remittance to state)  
2937.22 Surcharge for Bail for offenses other than traffic offenses or moving violations  
2949.091 Execution of sentence (collection and remittance to state)  
2949.094 Additional court cost for alcohol treatment and drug law enforcement funds (*fee per offender, not moving violation*)  
4511.19(G)(5)(a) Fine for enforcement and education fund  
4513.263 Occupant restraining devices  
5503.04 Disposition of fines and moneys arising from bail forfeitures

The clerks of various courts receive cash in payment of various court fees, costs, and fines, as well as contingent deposits pending the outcome of legal proceedings. Such monies normally may be deposited in banks or savings and loan associations pending distribution in accordance with statutory specifications or as directed by the court.

All moneys collected during a month and owed to the state shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of the state [Ohio Rev. Code § 1907.24(C), 2303.201(C), 2743.70 (A), 2949.091(A) (all courts) & (B), and 3109.14].

\* Per Auditor of State Bulletin 2005-003, it is the AOS’s opinion that a government cannot use these fees to compensate court employees who use a computer in their ordinary duties. Rather, the AOS believes the Ohio Legislature intended that such fees are to be used to procure and maintain computer systems or to computerize courts. This would include procuring services for installing, updating, and maintaining court computer systems (e.g., computer programmers or computer engineers). These services may be provided by employees or staff of the court and, in these circumstances, fees could be expended for employee or staff expenses as properly documented to demonstrate the percentage of time spent on such activities. However, employees and staff should not be compensated from computerization fees when using the court’s computer systems as end-users.

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note: Due to the large volume of over the counter cash receipts and the complexity of statutory fines and fees, the risk of noncompliance in courts is inherently higher. In assessing the risk of noncompliance, auditors should consider whether courts have historically demonstrated effective internal controls and compliance with applicable requirements. Additionally, adequate training of court personnel, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with court requirements.**

**Sample Questions and Procedures:**

Note: The Ohio Rev. Code sections listed in this step are provided primarily for your reference. When testing the collection and distributions of fines, auditors must refer to the applicable statutes governing the amounts to collect and amounts and methods of distribution, regardless of whether listed here. These tests should be part of the financial audit of the court.

1. Inquire and examine how the court updates its fines and fees schedule for new fines/fees and changes to existing legislation. Ask the court to demonstrate how it updated its fines/fees schedule for the most recent statutory change and ensures the fines/fees collected are properly distributed to the appropriate fund. (e.g., Ohio Rev. Code § 2937.22 now imposes a \$25 surcharge when posting bail for violations, except non-moving traffic offenses) *(Typically, we only require a low degree of assurance over compliance with this requirement. However, where courts are a material audit cycle, auditors should evaluate general IT controls (AOS staff should complete the RCEC) for automated court systems. When fine schedules are stored as standing data in an automated system subject to adequate general IT controls, examining one fine or fee that changed (the bail surcharge for example), normally provides sufficient evidence that the proper fine was charged. We also do not require staff to test all fine amounts set by statute. Instead, the objective should be to determine if the court is conscientious in updating its fine schedule timely and accurately.)*
2. Inquire as to how the court spends computerization fees. Determine whether the accounting system can segregate computerization fees received and spent; or how the court otherwise determines that these fees were only spent on permissible computerization activities per AOS Bulletin 2005-003.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**3-13 Compliance Requirement:** Ohio Rev. Code § 2743.70 and 2949.091 - Additional costs in criminal cases in all courts to fund reparations payments; additional court costs for state general revenue fund.

**Summary of Requirements:** These sections generally require the court in which any person is convicted of or pleads guilty to any offense other than a traffic offense which is not a moving violation to impose and collect additional fines to be used for the state's reparations fund. The court may not waive the payment of this additional cost unless the court determines that the offender is indigent and waives the payment of all court costs imposed upon the indigent offender.

**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

**Note:** Due to the large volume of over the counter cash receipts and the complexity of statutory fines and fees, the risk of noncompliance in courts is inherently higher. In assessing the risk of noncompliance, auditors should consider whether courts have historically demonstrated effective internal controls and compliance with applicable requirements. Additionally, adequate training of court personnel, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with court requirements.

**Sample Questions and Procedures:**

Note: The Ohio Rev. Code sections listed in this step are provided primarily for your reference. When testing the collection and distributions of fines, auditors must refer to the applicable statutes governing the amounts to collect and amounts and methods of distribution, regardless of whether listed here. These tests should be part of the *financial* audit of the court.

Inquire and examine how the court updates its fines and fees schedule and ensures the fines/fees collected are properly distributed to the appropriate funds. Ask the court to show you a few state fund reparations costs and determine they were distributed reasonably. *(Typically, we only require a low degree of assurance over compliance with this requirement. However, where courts are a material audit cycle, auditors should evaluate general IT controls (AOS staff should complete the RCEC) for automated court systems.)*

**Conclusion:** (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

**COUNTIES AND COUNTY HOSPITALS**

**3-14 Compliance Requirements:** Ohio Rev. Code §319.04 - Mandates training and continuing education requirements for **county** auditors.

**Summary of Requirements:** An elected county auditor needs to complete at least 16 hours of continuing education courses during the first year of each full term, and to complete at least eight more hours by the end of that term. The county auditor needs at least two hours of ethics and substance abuse training in the total 24 hours of required courses. The County Auditors Association of Ohio (the Association) must approve each course. If a county auditor teaches an approved course, the county auditor may receive credit for it. The Association shall keep track of the hours completed by each county auditor and, upon request will issue a statement of the number of hours of continuing education the county auditor has successfully completed. The Association will send this information to the Auditor of State’s office and to the Tax Commissioner each year. If a county auditor does not adhere to the requirements stated above, the Association shall issue a “notice of failure” to that county auditor. This notice is for informational purposes only and does not affect any individual’s ability to hold the office of county auditor. Also, each board of county commissioners shall approve reasonable amounts required by the county auditor to cover the costs incurred when meeting the above requirements.

**Sample Questions and Procedures:**

1. Review the County Auditor Association’s statement documenting attendance or confirm by reviewing the County Auditor Continuing Education Status Report located at: <https://ohioauditor.gov/references/confirmations/hours.html>.
2. Determine if the Auditor obtained sufficient CPE.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**



**3-15(a) Furtherance of Justice (FOJ)**

Per Ohio Rev. Code § 325.071 the sheriff's annual FOJ appropriation equals ½ of the Sheriff's salary. Ohio Rev. Code § 325.06(A) and 325.18(C) prescribe sheriffs' salaries. Note that the additional 1/8 salary paid to sheriffs per Ohio Rev. Code § 325.06(B) is **not** includable in the FOJ calculation.

Per Ohio Rev. Code §325.12, the prosecutor's annual FOJ appropriation equals ½ of the prosecutor's salary. This appropriation is to cover expenses incurred in performing the prosecutor's official duties and in the furtherance of justice.

The statutes require the sheriff and the prosecutor to file with the county auditor by the first Monday in January a full accounting of the expenditure of all funds from the FOJ account for the previous year. The statute requires the redeposit of any remaining funds, including cash held by officers, to the county treasury.

**Sample Questions and Procedures (To be performed every year):**

1. Please show me any policies and procedures you have for administering this fund.
2. Did you file the required annual report of expenditures for this fund? Please show me a copy of it.
3. Please show me documentation that the expenditures from this fund were proper and in accordance with your policies and procedures. Auditors should scan expenditure documentation and determine whether appropriate documentation is being maintained (i.e. receipts, invoices, affidavits, etc.), and whether expenditures appear reasonable in nature (i.e. proper public purpose). If significant unusual items are noted, auditors should perform the disbursement testing procedures included in the audit program below.

**FOJ Audit Program (To be performed every three years):**

Auditors auditing counties should use this audit program to test FOJ accounts. Auditors should develop a schedule for performing tests of compliance over these accounts on a rotational basis, with the audit programs being applied at least every third year. You should occasionally test these requirements every other year so the auditee cannot predict the year we will test this. We should not disclose our schedule to the auditee. However, if problems were noted with one of the funds in the previous year, apply the audit programs annually until the problems have been corrected (for example, the audit program procedures should be applied if significant expenditures were noted in the previous year which were not supported by appropriate documentation or were not for a proper public purpose).

**Audit Program Steps:**

1. Determine whether the sheriff and prosecutor filed a full accounting of expenditures of all funds from the FOJ account with the County Auditor by the first Monday in January as required by Ohio Rev. Code § 325.071 and 325.12(E).
2. Examine the county's computation of amounts payable from the general fund to the FOJ account per Ohio Rev. Code § 325.071 & 325.12. Compare the computation to actual payments. Investigate any differences and determine whether the prosecutor received approval from the court of common pleas under Ohio Rev. Code § 325.13 to allocate any additional funds to the FOJ account.

3. Per AOS Bulletin 97-014, any amounts paid to the FOJ fund in excess of the statutory limits described above will result in a finding for adjustment against the FOJ fund.
4. Determine whether a written internal control policy exists for administering and expending funds in the FOJ account. Compare the county's internal control policies to the guidance provided in AOS Bulletin 1981-007 for consistency (available in the AOS Briefcase). Lack of a clear, written policy should be communicated to the audit committee and/or management officials of the County.
5. Does the policy establish clear internal controls regarding the distribution of the funds? If so:
  - Do officers receiving cash sign a form or prenumbered, duplicate receipt for all money received?
  - Does the officer providing the cash also sign a form acknowledging the disbursement of cash?
  - Obviously the department should not obtain receipts for payments to informants. However, do officers submit vendor invoices, cash register slips or other documentation to support other uses of funds (similar to an imprest petty cash fund)?
  - Are officers required to keep an Agent Expense Report or similar paperwork?
  - What does the policy state an officer should do when a receipt cannot be obtained? Examine evidence supporting whether or not officers comply with the policy.
  - Does the policy require affidavits when officers pay cash to informants and for other confidential purposes?
6. Obtain the county's reconciliation of bank balances to the activity in the FOJ account cash book.
  - Foot the reconciliation.
  - Agree the bank balance per the reconciliation to the bank account statement balance.
  - Scan reconciling items for reasonableness.
    - Trace any relatively large outstanding checks or deposits in transit to subsequent bank deposits or the date on which outstanding checks subsequently cleared the bank.
  - Agree the book balance per the reconciliation to the FOJ account balance.
  - Trace payment of the remaining year end FOJ balance to a receipt / revenue into the county treasury, as Ohio Rev. Code § 325.071 (sheriff) and 325.12(E) (prosecutors) requires.
7. Obtain the check register and review the payees\* for reasonableness of the expenditure. If there are checks written to the Sheriff or other high ranking officials, include these disbursements in the test that step 8 describes.

\*Due to the 21st Century Check Act, there are instances in which the bank is no longer able to return an original paper check or a photocopy of an original paper check. Instead, the bank is able to provide you with only a "display history" of a withdrawal from your checking account. Information on a bank's "display history" typically includes, but is not limited to, the number of the account upon which the check is drawn, routing information, the person or entity to whom the check was made payable, the purpose for which the money was paid, and the amount paid to the person or entity. Because a bank's "display history" of a withdrawal from a checking account sets forth the same information that appears on an original paper check or a photocopy of an original paper check, such a "display history," like an original paper check or photocopy of an original paper check, may provide a reasonable and reliable means by which a county prosecuting attorney can accurately account for a disbursement from his furtherance of justice allowance. [AG Opinion 2005-035] Also see AOS Bulletin 2004-010.

8. Select a representative group of disbursements from the year end FOJ report, listing the check number, date, amount, and payee, and determine that:
- amount per the report agrees with the canceled check or receipt.
  - check is properly endorsed and signed by the Sheriff
  - expenditure is for furtherance of justice (almost everything counts except personal items— see the guidance in Bulletin 1981-007 and 1997-014)
  - Determine that the officer completes an affidavit to support confidential payments, describing the amount of the expenditure and either the check number or the receipt number related to the expenditure as well as a statement of a general nature of the expenditure. If an affidavit is executed, the Auditor of State will not require production of the actual check or receipt and will not make any further inquiry into the detail surrounding the expenditure unless there is probable cause to believe that the affidavit is false. If no affidavit is executed, the officer must produce sufficient documentation to support that the expenditure is for a proper public purpose. Please note that a mere assertion by the officer that an expenditure is confidential is not sufficient to negate the documentation requirements.
  - Determine whether other (i.e. non confidential) disbursements are adequately supported by original documents (e.g., original invoices, receipts, receiving report, etc.)
  - Determine that checks do not appear to have been altered
  - Determine whether amounts agree among related documents, and that computations (footings, extensions, etc.) are correct.

**Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**

**3-15(b) Law Enforcement Trust Fund****Mandatory Drug Fine**

Ohio Rev. Code § 2925.03 (F)(1) requires the clerk of a court to pay any mandatory fine imposed pursuant to division (D)(1) of this section and any fine other than a mandatory fine imposed for a violation of this section pursuant to division (A) or (B)(5) of section 2929.18 of the Revised Code to the county. . . or state law enforcement agencies in this state that were primarily responsible for or involved in making the arrest of, and in prosecuting, the offender. However, the Clerk shall not pay a mandatory fine so imposed to a law enforcement agency unless the agency has adopted a written internal control policy under division (F)(2) of this section that addresses the use of the fine moneys that it receives. Each agency shall use the mandatory fines so paid to subsidize the agency's law enforcement efforts that pertain to drug offenses, in accordance with the written internal control policy adopted by the recipient agency under division (F)(2) of this section. **(Audit Program Steps 1-4 starting on page 33)**

Ohio Rev. Code § 2925.03 (F)(2) provides guidance on preparing an internal control policy which describes the general types of allowable expenditures from the Law Enforcement Trust Fund. **(Audit Program Steps 1-4 starting on page 33)**

**Forfeited Moneys**

Ohio Rev. Code § 2981.13(C)(2)(A) requires sheriffs and county prosecutors to adopt an internal control policy relating to proceeds and forfeited money. The policy should address the use and disposition of all the proceeds and forfeited moneys, the general type of expenditures to be made out of the proceeds and forfeited moneys received, and records to be maintained.

Ohio Rev. Code § 2981.11(B)(2) provides that any law enforcement agency that receives or uses any proceeds or forfeited monies out of a law enforcement trust fund under Ohio Rev. Code § 2981.13 shall ~~maintain records kept under the internal control policy of the agency which shall be open to public inspection during the agency's regular business hours. prepare a report covering the calendar year that cumulates all of the information contained in all of the public financial records kept pursuant to this section and shall send a copy of the cumulative report to the Attorney General by March 1.~~ **(Steps 1-11 starting on page 32)**

**Sample Questions and Procedures (To be performed every year):**

1. Please show me any policies and procedures you have for administering this fund.
2. ~~Did you file the required annual report of expenditures for this fund? Please show me a copy of it.~~
3. Please show me documentation that the expenditures from this fund were proper and in accordance with your policies and procedures. Auditors should scan expenditure documentation and determine whether appropriate documentation is being maintained (i.e. receipts, invoices, affidavits, etc.), and whether expenditures appear reasonable in nature (i.e. proper public purpose). If significant unusual items are noted, auditors should perform the disbursement testing procedures included in the audit program below.

**Law Enforcement Trust Fund Audit Program (To be performed every three years):**

Auditors auditing counties should use this audit program to test Law Enforcement Trust Fund accounts. Auditors should develop a schedule for performing tests of compliance over these accounts on a rotational basis, with the audit programs being applied at least every third year. You should occasionally test these requirements every other year so the auditee cannot predict the year we will test this. We should not disclose our schedule to the auditee. However, if problems were noted with one of the funds in the previous year, apply the audit programs annually until the problems have been corrected (for example, the audit program procedures should be applied if significant expenditures were noted in the previous year which were not supported by appropriate documentation or were not for a proper public purpose).

**Audit Program Steps:**

1. Obtain the written internal control policy Ohio Rev. Code § 2925.03(F)(2)(a) requires. The policy should address the law enforcement agency's use and disposition of all drug fine moneys received, and require using detailed financial records of the receipts of the fine moneys, the general types of expenditures made of this fine money, and the specific amount of each general type of expenditure.

The policy shall not provide for or permit the identification of any specific expenditure made for an ongoing investigation. All financial records of receipts and expenditures by the law enforcement agency are considered public records open for inspection.

2. Review the written internal control policy for the appropriate elements noted in step 1 above. (If we reviewed the policy in a prior audit, scan for changes and document in the permanent file.)
3. Determine if the law enforcement agency implemented the written internal control policy and has complied with the provisions pertaining to the use and disposition of drug fine moneys received, keeping of detailed financial records, allowability of expenditures made, and any limitations on the amount of each general type of expenditure.

We should test this via procedures we use to determine if controls have been implemented. These might include a walk-through and scanning a few disbursements and the related documentation and financial records. See AOSAM 30500.4568.

4. An additional fine imposed under Ohio Rev. Code § 2929.18(B)(4) does not require distribution to LET funds under Ohio Rev. Code § 2925.03(F).

Instead, fines imposed under Ohio Rev. Code §2929.18(B)(4) must be used as provided in Ohio Rev. Code § 2925.03(H). This section requires fines to be used solely for the support of one or more eligible community addiction programs. Determine if any such fines existed and were spent according to Ohio Rev. Code § 2925.03(H).

5. Obtain the bank accounts and support documentation representing LET fund activity established by the prosecuting attorney and by the sheriff.
6. Test the bank reconciliation.
  - Foot the reconciliation.
  - Agree the bank balance per the reconciliation to the bank account statement balance.
  - Scan reconciling items for reasonableness. Trace any relatively large outstanding checks or deposits in transit to subsequent bank deposits or the date on which outstanding checks subsequently cleared the bank.

- Agree the book balance per the reconciliation to the LET fund accounting record's balance.
7. Scan disbursements for any unusual items.
  8. This step applies to both drug fines (Ohio Rev. Code § 2925.03(F)(1) and forfeited money (Ohio Rev. Code § 2981.13(B)(4)(b)).

Scan selected LET fund disbursements and supporting documentation (e.g. invoices, etc.) to determine if they were used only for the following purposes (Ohio Rev. Code § 2981.13(C)(2)(a)):

- protracted or complex investigations or prosecutions,
- to provide reasonable technical training or expertise,
- to provide matching funds to obtain federal grants to aid law enforcement,
- in support of DARE programs or other programs designed to educate adults or children with respect to the dangers associated with the use of drugs of abuse,
- to pay the costs of emergency actions taken under Ohio Rev. Code § 3745.13 relative to operating an illegal methamphetamine laboratory if the forfeited property or money involved was that of a person responsible for operating the laboratory,
- or other law enforcement purposes that the superintendent of the state highway patrol, department of public safety, prosecutor, county sheriff, legislative authority, department of taxation, Ohio casino control commission, board of township trustees, or board of park commissioners determines appropriate.
- The funds must not be used to meet the operating costs of the prosecuting attorney or sheriff (Ohio Rev. Code §2981.13(C)(2)(c)).

The funds' use is also subject to the written internal control policy described in Step 1 above. If transactions do not comply with the policy, we should cite noncompliance with the policy.

We require only a low level of assurance from this testing. Select sample sizes accordingly, or use high dollar testing if it is more efficient and provides greater coverage.

9. Determine if the prosecuting attorney and sheriff have adopted a written internal control policy addressing the use of moneys received from contraband as required by Ohio Rev. Code § 2981.13(C)(2)(A). Test costs selected in Step 8 above and ensure forfeited monies from drug related cases have been expended only in accordance with the written internal control policy adopted.
- ~~10. Determine if the prosecuting attorney and sheriff have filed the report Ohio Rev. Code § 2981.11(B)(2) requires with the Attorney General by March 1. Auditors should send Ohio Rev. Code § 2981.11(B)(2) noncompliance violations (report and/or management letter) to the Auditor of State legal division.~~
11. Determine if moneys from the sale of contraband were disbursed to the appropriate agency or fund as indicated in the internal control policy.

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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## TOWNSHIPS

**3-16 Compliance Requirements:** Ohio Rev. Code §505.60 and 505.601, AOS Bulletin 2009-003, and 2005 Op. Atty. Gen. No. 2005-038 - Reimbursement of insurance premiums – **Townships.**<sup>9</sup>

**Summary of Requirements:**

NOTE: IRS Notice 2013-54 and Department of Labor Technical Release 2013-03 states that employers may only reimburse employees' premiums for non-employer sponsored health care with post-tax dollars (i.e. employers must withhold taxes prior to making reimbursement). However, these reimbursements will not be used in computing allowable "gross salary" as prescribed in Ohio Rev. Code §505.24 and §505.09.

Generally, Ohio Rev. Code §505.60 permits townships to procure their own healthcare coverage, while Ohio Rev. Code §505.601 permits townships to opt not to procure their own plans, but still reimburse officers' and employees' for their healthcare premiums. Ohio Rev. Code §505.60 specifically permits townships to procure the following forms of healthcare coverage: hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance. In addition, Ohio Rev. Code §505.60 allows townships to reimburse a township officer or employee for out-of-pocket premiums for insurance policies, including long-term care insurance<sup>10</sup>. The reimbursement is permitted for a township officer or employee who is denied coverage under a township health care plan established pursuant to Ohio Rev. Code §505.60, or who elects not to participate in the township's plan. The township may reimburse for each out-of-pocket premium attributable to the coverage provided for the officer or employee for insurance benefits that the board could have provided under Ohio Rev. Code §505.60(A). The reimbursement for the officer, employee, and their immediate dependent cannot exceed an amount equal to the average premium paid by the township under any health care plan it procures [Ohio Rev. Code §505.60(D)].

Requirements governing township-procured health insurance coverage apply equally to township-paid coverage through a health insuring corporation contract as follows:

- that an officer or employee may decline coverage under either method without affecting the availability of coverage to other officers and employees
- that either method may provide the same kinds of coverage
- that coverage under either method is to be paid from the same township sources used to pay employee and officer compensation
- that immediate dependents may be covered under either method
- that reimbursement of an officer or employee for premiums paid for alternative coverage (e.g., through a spouse) is only for the part of the premium paid for the same kinds of coverage offered by the township's plan, whether it be provided through insurance or a health insuring corporation

<sup>9</sup> ~~Note: The Internal Revenue Code [26 USC § 105 (b)] provides an exclusion from gross income of employees for " . . . amounts . . . paid, directly or indirectly, to the taxpayer to reimburse the taxpayer for expenses incurred by him for the medical care (as defined in §213(d)) of the taxpayer, his spouse, and his dependents . . .". §213 (d)(1)(D) provides that the term "medical care" includes amounts paid for insurance. Therefore, reimbursing township employees for their medical insurance generally should not result in a taxable event to those employees, if the township is reasonably assured that the reimbursements are not in excess of employees' expenditures for medical insurance as defined.~~

<sup>10</sup> In a recent example, a township official who obtained coverage through an outside employer sought reimbursement for this outside employer's portion of his insurance premium. This is not permitted by law. Townships can only reimburse for the official's out-of-pocket portion of the premium – up to the average amount of premiums paid under the township's health insurance plan.

contract

The statute does not permit reimbursements for:

- deductibles
- the employer's portion of premiums
- healthcare expenses related to family members, not on the township healthcare plan

If a township opts not to procure its own health insurance, it still is permitted to reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs pursuant to Ohio Rev. Code §505.601. However, pursuant to Ohio Rev. Code §505.601, the township must meet the following three conditions:

1. The board of township trustees adopts a resolution stating that the township has chosen not to procure a health care plan and has chosen instead to reimburse its officers and employees for each out-of-pocket premium,
2. The resolution provides for a uniform maximum monthly or yearly payment amount for each officer and employee,
3. The resolution states the specific benefits, pursuant to Ohio Rev. Code §505.60(A), that will be reimbursed.

Ohio Rev. Code § 505.601 (reimbursement when a township does *not* offer health insurance to its officers/employees) covers reimbursements made to township officers/employees for dependent health care coverage. Reimbursement is only for the part of the out-of-pocket premium attributable to the coverage provided for the officer or employee for insurance benefits that the board could have provided under Ohio Rev. Code § 505.60(A), and that the reimbursement covers immediate dependents in addition to the officer or employee.

*Note: 2005 Op. Atty. Gen. No. 2005-038 states that townships are not authorized to directly pay the employer of a township officer or employee's spouse for the cost of family coverage under a health care plan provided to the spouse by the spouse's employer. Auditors should consider appropriate findings if such direct payments are identified. However, the officer or employee can be directly reimbursed for the out-of-pocket premium attributable to that officer or employee for health care coverage provided through the employer of a spouse as outlined in Ohio Rev. Code § 505.60 and 505.601.*

*2013 Op. Atty. Gen. No. 2013-022 states a board of township trustees may reimburse a township officer or employee pursuant to Ohio Rev. Code § 505.601 for monthly Medicare Parts A, B, and D premium payments made by the officer or employee, so long as the benefits provided by Medicare Parts A, B, and D are consistent with the benefits identified in the township resolution stating that the township has chosen not to procure a health care plan under Ohio Rev. Code § 505.60 and the reimbursement does not exceed the uniform monthly or yearly payment amount set by that resolution.*

**Auditors should refer to AOS Bulletin 2009-003 for additional information.**

#### **Sample Questions and Procedures:**

1. Inquire and scan the records to determine if the township reimbursed any officer or employees for



insurance benefit premiums during the period under Ohio Rev. Code §505.60 or §505.601?

2. Review the resolution authorizing reimbursement. (We should maintain a copy in the permanent file so we needn't repeat this step each audit.)
3. Review the township's procedures for ensuring reimbursements meet the requirements of [Ohio Rev. Code §505.60(A) or the reimbursement resolution from Ohio Rev. Code §505.601].
4. Review a few employees' reimbursement transactions to determine if they were allowable.

<b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b>
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**3-17 Compliance Requirements:** Ohio Rev. Code § 505.603<sup>11</sup> - “Cafeteria Plans” - Townships.<sup>12</sup>

**Summary of Requirements:** In addition to or in lieu of providing benefits to township officers and employees under Ohio Rev. Code §505.60, 505.601, or 505.602, a board of township trustees may offer benefits to officers and employees through a cafeteria plan that meets the requirements of section 125 of the "Internal Revenue Code." To offer benefits through a cafeteria plan, the township must adopt a policy authorizing an officer or employee to receive a cash payment in lieu of a benefit otherwise offered to township officers or employee. This cash payment may not exceed twenty-five percent of the cost of premiums or payments that otherwise would be paid by the board for benefits for the officer or employee.

Ohio Rev. Code § 505.603 further requires that no cash payment in lieu of a benefit be made unless the officer or employee provides a signed statement with the following information:

- an affirmation that the individual is covered under another plan for that type of coverage
- the name of the employer (if any) that sponsors the coverage
- the name of the carrier that provides the coverage
- the policy or plan number for the coverage

**Sample Questions and Procedures:****Note:**

- **None of these steps apply if a township does not have a cafeteria plan.**
- **Steps 1 – 4 only apply when a township adopts or amends a cafeteria plan during the audit period.**
- **Reviewing the permanent file should address steps 1 – 4 for years in which there is no**

<sup>11</sup> In addition to providing the benefits to township officers and employees under section 505.60, 505.601, or 505.602 of the Ohio Rev. Code, a board of township trustees may offer a health and wellness benefit program through which the township provides a benefit or incentive to township officers, employees, and their immediate dependents to maintain a healthy lifestyle, including, but not limited to, programs to encourage healthy eating and nutrition, exercise and physical activity, weight control or the elimination of obesity, and cessation of smoking or alcohol use.

The township fiscal officer may deduct from a township employee's salary or wages the amount authorized to be paid by the employee for one or more qualified benefits available under section 125 of the "Internal Revenue Code of 1986," 26 U.S.C. 125, and under the sections listed in division above, if the employee authorizes in writing that the township fiscal officer may deduct that amount from the employee's salary or wages, and the benefit is offered to the employee on a group basis and at least ten per cent of the township employees voluntarily elect to participate in the receipt of that benefit. The township fiscal officer may issue warrants for amounts deducted under this division to pay program administrators or other insurers for benefits authorized under this section or those sections listed above.

<sup>12</sup> Note: The Internal Revenue Code [26 USC § 105 (b)] excludes from gross income of employees “. . . amounts . . . paid, directly or indirectly, to the taxpayer to reimburse the taxpayer for expenses incurred by him for the medical care (as defined in §213(d)) of the taxpayer, his spouse, and his dependents . . .” §213 (d)(1)(D) provides that the term “medical care” includes amounts paid for insurance. ~~Therefore, reimbursing township employees for their medical insurance generally should not result in a taxable event to those employees, if the township is reasonably assured that the reimbursements are not in excess of employees’ expenditures for medical insurance as defined. If the township is not reasonably assured of that, then the cash paid should be reflected on the employee’s or officer’s Form W-2 as an additional taxable benefit. Similarly, if the cash is used for life insurance or any other purpose, the employee’s W-2 should reflect an additional taxable benefit.~~

**amendment.**

1. Do you offer your officers and employees benefits through a cafeteria plan?
2. Inquire if the township worked with their legal counsel and/or accountants to design and administer the plans properly. If so, secure any documentation legal counsel or the accountants have supplied to the township.
3. Did the IRS approve your plan? Please show me a copy of the approval letter.
4. Review the policy document for conformance with the requirements.
5. Describe your procedures for ensuring reimbursements met the requirements of Ohio Rev. Code §505.603.
6. Please show me [number] of signed statements with the attestations and the required information.
7. Calculate or review the entity's calculations that cash in lieu of payments does not exceed 25% of the cost to the township for providing the benefit (that is no longer being received).

Inquire with the fiscal officer to determine how health care reimbursements are recorded.

For UAN entities: Use the wage base earning report – detail and summary. For periods before 2015, use the wage detail report.

8. Determine if the employees' W-2 forms reflect additional income for the benefit if applicable.

<p><b>Conclusion: (effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):</b></p>
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