



Dave Yost • Auditor of State

March 30, 2017

Chancellor John Carey
Ohio Department of Higher Education
25 South Front Street
Columbus, Ohio 43215

Dear Chancellor Carey:

Consistent with your request dated January 25, 2017 and with provisions of Chapter 126:3-1-01(F)(1)(b) of the Ohio Administrative Code, we reviewed the Financial Accounting Report we issued on September 16, 2015 pertaining to Owens State Community College.

Our review is detailed in the attached report which will indicate that the College has fully remediated all but one condition that led to reportable comments. The one not fully remediated is in process of implementation and we have written representation from the College that the implementation will be completed in a timely manner.

Based on our review, the Auditor of State's Office has determined that Owens State Community College has implemented or is in the process of implementing an effective financial accounting and reporting system.

If you have any questions please feel free to contact Dave Thompson from our office at (614)728-6475.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

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Owens State Community College
Wood County, Ohio

Report on the Status of the Owens State Community College
Financial Accounting Report

Local Government Services

Owens State Community College, Wood County

Report on the Status of the Owens State Community College Financial Accounting Report

Table of Contents

Certification 3

Report on the Status of the Owens State Community College
Financial Accounting Report 5

Section 1 - Financial Accounting and Reporting System 5

Section 2 – Audit Report..... 12

Conclusion 12

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CERTIFICATION

Pursuant to a request submitted to the Auditor of State by the Chancellor of Higher Education and as provided by Ohio Administrative Code Section 126:3-1-01(F)(1)(b), the Auditor of State performed an analysis of Owens State Community College's financial accounting report that was issued by the Auditor of State on September 16, 2015. The purpose of the analysis was to determine whether the University has remediated the reportable events outlined in the aforementioned report. Based on our analysis, the Auditor of State certifies that all reportable events have been remediated or is substantially in process of being remediated.

Accordingly, this report is hereby submitted to the Chancellor of the Ohio Department of Higher Education and to the Board of Trustees of Owens State Community College.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

March 30, 2017

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Report on the Status of the Owens State Community College Financial Accounting Report

At the request of the Chancellor of the Ohio Department of Higher Education and as provided by Ohio Administrative Code Section 126:3-1-01(F)(1)(b), the Auditor of State has reviewed the status of deficiencies outlined in the Financial Accounting Report issued by the Auditor of State on September 16, 2015 to determine if the College has substantially remediated the reportable events described in the aforementioned report.

It is understood that this report's determination is for the use of Chancellor of the Ohio Department of Education, the Auditor of State of Ohio, the Board of Trustees of Owens State Community College, and others as designated by the Auditor of State and is not to be used for any other purpose. Our procedures and findings follow.

Section 1 - Financial Accounting and Reporting System

When a College is placed in fiscal watch, the Auditor of State is required to report on the effectiveness of the College's financial accounting and reporting system. The Auditor of State, in accordance with Chapter 126:3-1-01(D)(1)(b) of Ohio Administrative Code assessed the methods, accuracy, and legality of the accounts, records, files, and reports of Owens State Community College (the College) and issued a Financial Accounting Report. The report identified areas where the College's financial accounting and reporting system were not in compliance with Chapter 126:3-1-01(D)(1)(b) of Ohio Administrative Code and the requirements of the Auditor of State.

A termination from fiscal watch status by the Ohio Department of Higher Education includes a consultation from the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation. This determination is based on management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient to correct these issues identified in the Financial Accounting Report. A summary of each area of noncompliance identified in the Financial Accounting Report and the status of each corrective action is presented below:

Budgetary Process

Auditor of State Comment from Report on Accounting Methods

Although the Board approved a Financial Standards Policy which includes a requirement that the College maintain a specified undesignated reserve balance in the unrestricted educational and general current operating fund, the unrestricted auxiliary funds, and the unrestricted plant fund, this policy has not been implemented as of the date of this report. The College should implement this requirement by incorporating fund balance targets into the budgeting process. This will help ensure that budgeted expenses are at a level that will permit the growth or maintenance of the aforementioned undesignated reserve balances. Additionally, there should be a process of monitoring fund balance throughout the year to allow for changes to the budget if the specified undesignated reserve balance is not being met.

Owens State Community College, Wood County
Report on the Status of the Owens State Community College Financial Accounting Report

Implemented

The Financial Standards Policy was updated and approved by the Board on June 19, 2016. The new implemented policy not only stipulates reserve/net asset requirements and targets for unrestricted operating, auxiliary and plant funds but also states when reserves can be used. To monitor the reserve requirements set within the policy, the monthly financial packet prepared by the Chief Financial Officer has an exhibit memo that shows the current cash position by different funds compared against the Financial Standards Policy requirements for reserves.

Auditor of State Comment from Report on Accounting Methods

The Treasurer maintains a budgetary narrative for each fiscal year that describes the budgetary process; however, this narrative should be expanded to include a more detailed description of budget monitoring procedures and budget forms to be used. These procedures should include a mandated review process of variances between estimated revenues and actual revenues and the amount or percentage of variance that will start the process of modifying the overall unrestricted budget. These procedures should also include specific timelines and a requirement for tracking enrollment and related revenues to predict the accuracy of the current budget. These procedures should also include a requirement to use the budgetary forms that are in place, rather than relying on email requests.

Implemented

The Chief Financial Officer updated the budgetary narrative that describes the budgetary process which was expanded to include timing, tracking and monitoring of enrollment. The narrative requires that on a regular basis a schedule is prepared that compares actual and budget enrollment and steps to be taken if there are significant fluctuations. The narrative also requires a preparation of a monthly Finance Packet for the Board that includes the following analysis of both revenues and expenditures: variances between the fiscal year budgeted vs projected total, current fiscal year to date amounts against prior fiscal year to date amounts, identifies projection changes for both revenues and expenses, updates the year end Senate Bill 6 projections ratio, balance sheet comparison of current year month to date balances to prior year month to date balances and current month to date balances to prior year end balances, reserve requirements cash balances, and budget memo that summarizes any changes for the current month. The updated budgetary narrative also contains a requirement of all budget modifications and transfers to be obtained through the Budget Request Form and/or Request for Budget Transfer Form and an email request for either are no longer accepted.

Auditor of State Comment from Report on Accounting Methods

To ensure disclosure of budget transfers, budget modifications and new departments approved by the Vice President, grant budgets approved by the Risk Management Team, and significant enrollment fluctuations, these approved budget transfers, budget modifications, new departments, grant budgets and significant enrollment fluctuations should be presented and reviewed with the Board Finance Committee at the following month's Committee meeting. In addition, the board should approve any necessary decreases to the overall budget rather than only approving a maximum amount.

Implemented

The Financial Standards Policy was updated by the Board on June 19, 2016 and implemented by the College. This policy contains an updated section under reporting for all regular meetings of the Board. It states: "A report of budget transfers and adjustments shall be included at every Board of Trustees finance committee meeting and will be recommended for approval at the Board of Trustees regular meeting. A change to the budget that impacts a division total or the total budget at the fund level must be

Owens State Community College, Wood County
Report on the Status of the Owens State Community College Financial Accounting Report

approved by the Board of Trustees. A change to the budget within a division or account level must be approved by the Chief Financial Officer, which shall be included in the report of budget transfers.”

Revenue Activity

Auditor of State Comment from Financial Accounting Report

The College has recently changed their deposit procedure to make deposits to the bank at least every three days to be in compliance with the requirements in Section 9.38 of the Ohio Revised Code. However, there is no Board Policy adopted that extends the time period for deposits beyond the one day following receipt stated in the ORC. The College should either adopt a policy to address this or make daily deposits to the bank.

Implemented

The Board adopted a policy on December 23, 2016, defining the procedures for the deposit of funds to be in accordance with Section 9.38 of the Ohio Revised Code. The Board Policy extends the time period for deposits that are less than one thousand dollars and that can be safeguarded, beyond the one day following receipt which is stated in the ORC to the third business day, or when the amount on hand reaches an amount equal to or greater than one thousand dollars, whichever comes first.

Purchasing Process, Bidding, and Cash Disbursements

Auditor of State Comment from Financial Accounting Report

The College’s Board approved purchasing policy requires any purchase or lease of goods and services to obtain prior authorization through the issuance of a purchase order. However, payments are processed for direct payments as well as P-card payments (except those made by the Specialist Accounts Payable Clerk) without a purchase order. All the direct payment items as well as the P-card items, except for emergency items, could have easily gone through the normal requisition and purchasing process. The College should review direct payment and P-card practices and specifically identify when these should be used. For example, the use of P-cards while traveling on College business would be acceptable but an open (blanket) purchase order should be used to encumber funds for these types of purchases. Also, direct payment forms should be used sparingly for emergency items only. A change in these practices would strengthen the controls over both budgets and expenditures.

Implemented

The Board of Trustees revised the College’s Purchasing Policy to not allow for direct pay requests, with the exceptions for employee travel, memberships, club accounts, request for proposals, public advertisements, athletic tournament entry fees, college nights (hosted at various schools) for less than two hundred dollars, and state and federal aid funds to be returned to respective governmental agency within three days. Furthermore, the policy states that any other request for direct pay will be returned to the requestor to obtain a purchase order before the payment is processed. Finally, the updated policy addresses the appropriate uses and limits of purchase cards, and requires budgetary approval or the issuance of a purchase order for all purchases.

Auditor of State Comment from Financial Accounting Report

A P-card holder, except the Specialist Accounts Payable Clerk, is required to review their own receipt/invoices on the PaymentNet software for approval of payment. Even though the invoices are sent to the P-card Administrator, this review is only to note any strange purchases or large sales tax. A review

Owens State Community College, Wood County
Report on the Status of the Owens State Community College Financial Accounting Report

of the P-card invoices by the P-card Administrator, the Specialist Accounts Payable Clerk, or the Controller should also include determining if the purchase was essential for College purposes, within budget before payment is made on the P-card statement and no sales tax is paid.

Implemented

The College has implemented new procedures for P-card users along with the approval process to help ensure purchasing policies are followed. All purchase card accounts are now maintained by Fifth Third Bank along with blanket purchase orders being issued for all authorized P-card accounts prior to their use. Each P-card account user must log in to review each transaction and upload a copy of the receipt/invoice. Each transaction is then reviewed by two Specialist Accounts Payable Clerks to verify the transaction is properly budgeted, is recorded in the correct Banner account, is a proper purchase (by reviewing the receipt/invoice that was uploaded) for the account user, and does not include sales tax. All approved transactions are then uploaded to Banner by the Chief Financial Officer.

Payroll Processing

Auditor of State Comment from the Financial Accounting Report

Timesheets and timecards are manually entered into the payroll processing portion of Banner. The student workers time that is inputted into the system is reviewed by the Payroll Specialist; however, the other hourly timesheets are inputted by the Payroll Specialist with no review of the input for completeness or accuracy. The College should update policies and procedures so that there is secondary review or approval.

Implemented

The College has updated its procedures to include that all payroll is approved by the Chief Financial Officer. The student workers time is inputted into the Banner system by the accounting staff and reviewed by the Payroll Specialist. However, the other hourly timesheets are still being inputted by the Payroll Specialist. To compensate, once the payroll is entered, the Payroll Specialist emails the payroll report to the Chief Financial Officer for review. The Chief Financial Officer reviews and then meets with the Payroll Specialist to review any issues. Once all questions have been addressed, the payroll is approved by the Chief Financial Officer and he sends an email to the Payroll Specialist to proceed with the payroll process of issuing checks and loading the data file to the bank for direct deposits.

Auditor of State Comment from the Financial Accounting Report

The Payroll Specialist has the ability to transfer monies from the general operating checking account to the payroll account without the approval of the Manager of Cash/Investments. The College should update policies and procedures so that the transfer of monies is to be approved in writing by the Manager of Cash/Investments before the transfer is made.

Implemented

Once the payroll is processed, the Banner system creates the PHPDIRD report for direct deposits. The Payroll Specialist uploads this file to the bank through password protection for payment. The Payroll Specialist bank functions are limited to only the ability to load the payroll file through the data exchange process at the bank. The Chief Financial Officer completes all necessary transfers on-line via the Bank website. These procedures were already in place and documented but were not being followed.

Owens State Community College, Wood County
Report on the Status of the Owens State Community College Financial Accounting Report

Auditor of State Comment from the Financial Accounting Report

The Treasurer reviews payroll reports for overtime eligible employees before each individual payroll is processed; however, there is no review of non-overtime or salaried employees. The College should update policies and procedures so that there is a secondary review or approval of payroll before it is posted to the general ledger.

Implemented

As previously stated, the College has updated its procedures to include that all payroll is to be approved by the Chief Financial Officer. Once the payroll is entered, the Payroll Specialist emails the payroll report to the Chief Financial Officer for review. The Chief Financial Officer reviews and then meets with the Payroll Specialist to review his questions. Once all issues have been addressed, the payroll is approved by the Chief Financial Officer and he sends an email to the Payroll Specialist to proceed with the payroll process of issuing checks and also loading the data file to the bank for direct deposits.

Cash Management and Investing

Auditor of State Comment from Financial Accounting Report

The signature blocks are not cut out of voided checks. All voided checks should have the signature cut out.

Implemented

All voided checks are reviewed by the Chief Financial Officer's Office personnel and the signature lines are cut out and removed.

Auditor of State Comment from the Financial Accounting Report

The monthly bank reconciliations should be provided to the Board Finance Committee for review on a monthly basis.

Implemented

The College's Accountant prepares the monthly bank reconciliation packet and provides it to the Chief Financial Officer for review. The Chief Financial Officer prepares a monthly financial report for both the Finance Committee and the Board of Trustees that includes a schedule for cash and investments. The memo that is prepared with the financial report provides fund balance information. The Finance Committee and the Board of Trustees are not currently meeting on a monthly basis; however, during the months that they are not meeting, the monthly financial report is being mailed to each member.

Auditor of State Comment from the Financial Accounting Report

The College does not have an investment policy as required by Section 3345.05(C), Revised Code. The College should develop an investment policy as required by Revised Code and have the policy approved by the Board.

Implemented

The Board of Trustees adopted an investment policy on February 2, 2016 that was effective beginning February 13, 2016. The policy indicates that the College shall invest public funds in a manner, which will

Owens State Community College, Wood County
Report on the Status of the Owens State Community College Financial Accounting Report

provide maximum security with the highest investment return, safety and preservation of principal, while meeting the daily cash flow demand and conforming to all applicable statutes governing the investment of public funds. The policy states that the Chief Financial Officer is the investment officer of the College and is responsible for the purchase and sale of invested funds and will adhere to the Revised Code and all other applicable laws and regulations. The policy further discusses the authorized investments and requires the Chief Financial Officer to annually attend training on investing that is offered by the State Treasurer's office.

Financial Reporting

Auditor of State Comment from Financial Accounting Report

In accordance with Ohio Administrative Code Section 126:3-1-01(D)(1)(d), the College should establish a process by which the Board of Trustees or a committee will undertake monthly reviews of revenues, expenditures, and encumbrances consistent with the financial recovery plan.

Implemented

As previously stated, the Chief Financial Officer now prepares a monthly Financial Report packet for the Finance Committee and the Board of Trustees. This packet includes the following analysis of both revenues and expenditures: variances between the fiscal year budgeted vs projected total, current fiscal year to date amounts against prior fiscal year to date amounts, identifies projection changes for both revenues and expenses, updates the year end SB 6 ratio, balance sheet comparison of current year month to dates balances to prior year month to date balances and current month to date balances to prior year end balances, reserve requirements cash balances, and budget memo that summarizes any changes for the current month.

Auditor of State Comment from the Financial Accounting Report

In accordance with Ohio Administrative Code Section 126:3-1-01(D)(1)(e), the College should establish a process by which they approve and monitor the monthly levels of expenditures and encumbrances and require supporting documentation to substantiate any departure from any approved level.

Implemented

The monthly Financial Report packet prepared by the Chief Financial Officer, not only includes the analysis of revenues and expenditures as noted above, but also a detailed listing of monthly expenditures that are greater than \$10,000 along with a listing of purchase orders that are between \$10,000 and \$49,999. Purchase orders that are greater than \$50,000 are approved by the Board of Trustees. These listings include the amount, vendor and also a description of the expenditure or the purchase order. The expenditure analysis that is being prepared by the Chief Financial Officer compares the actual amounts to what is budgeted and any large variances will be disclosed in the memo summary.

Auditor of State Comment from the Financial Accounting Report

During a review of the Board Finance Committee minutes, it was noted that the Board Finance Committee has discussed the need for a report that could better convey the College's financial information in a user-friendly format. One report that could accomplish this would be a Popular Annual Financial Report (PAFR). The intent of a PAFR is to extract information from an entity's General Purpose External Financial Statements to produce summarized financial information specifically designed to be readily accessible and easily understandable to the general public and other interested parties.

Owens State Community College, Wood County
Report on the Status of the Owens State Community College Financial Accounting Report

Implemented

Per their discussion with the Chief Financial Officer and based on the items that he has included within the monthly Financial Report packet, the Finance Committee and the Board of Trustees did not feel the PAFR needed to be prepared. At the beginning of each monthly packet, the Chief Financial Officer prepares a summary detailing key financial indicators as well as detailed descriptions that makes it easily understandable to the general public.

Forecasting and Planning

Auditor of State Comment from Report on Accounting Methods

Although the College has a five-year forecast requirement as part of the Financial Standards Policy, this requirement has not yet been implemented. The five-year forecast should be completed per the policy. In addition, the College should consult with other higher education institutions, industry associations or groups, and national finance organizations to research methods and best practices related to forecasting and planning. The College should expand forecast requirement of the Financial Standards Policy to include specific processes or steps to be taken, including a listing of the employee or employees responsible for each component of the forecast and related planning, integration of other planning documents into the forecast (see next comment), and a requirement for ongoing monitoring of forecasts and plans.

Implemented

The Financial Standards Policy was updated on June 19, 2016 to include additional reserves for insurance claims along with a new section on the use of unrestricted fund reserves. The policy states specifically when reserves can be used for a short term solution and when utilized this must be disclosed to the Board at their next meeting along with a plan to eliminate the use of reserves in the annual budget must be prepared in the five-year planning process. The College now prepares a five-year forecast as part of the annual budget presentation to the Board as required by Financial Standards Policy. To facilitate the implementation of forecasting process into the budgetary cycle, the Chief Financial Officer updated the budgetary narrative to include timing, employees responsible for components of the budget and forecast, and monitoring requirements.

Auditor of State Comment from Report on Accounting Methods

The College should integrate a financial forecasting component with each of their planning documents. For instance, as each component of future strategic plans or Academic Quality Improvement Program (AQIP) systems portfolios are researched and implemented, these plans should be incorporated into the assumptions that form the basis for the five-year forecast. This would ensure that plans are only implemented with a clear understanding of the financial impact of doing so.

Implemented

The College has designated the Financial Recovery Plan that was required for fiscal watch status as the College's strategic plan. The deadline for both plans coincided with each other and the College elected to combine the two. The Financial Recovery Plan contains many ideas of the strategic plan along with estimated savings or potential changes to revenue streams. The Strategic Enrollment Management Plan that was approved by the Provost was also included in the Financial Recovery Plan. Per the updated budgetary narrative, the Budget Authorities in each department must submit a five-year nonpayroll budget. The financial impact of the implemented or approved items within these planning documents have been integrated into the five-year forecast.

Owens State Community College, Wood County
Report on the Status of the Owens State Community College Financial Accounting Report

Auditor of State Comment from Report on Accounting Methods

The College should use long-term forecasting to assist in the negotiations process with employee union groups. Although the College calculates the financial impact of potential employee pay and benefit changes on expenses for one fiscal year, that information is not incorporated into a more comprehensive forecast that would include estimated revenues and estimated remaining fund balances as impacted by the forecasted expenses.

Implemented

When the College receives request from unions on changes to pay rates, the Chief Financial Officer has staff prepare an analysis of the current employees and positions with the requested pay changes and time frame of the changes. The change in cost is calculated to be presented to not only the College but the union representatives. This analysis is compared to the five-year forecast that was approved during the budget process as well as to the SB 6 projects that is presented in the budget memo presented in the monthly financial packet.

Auditor of State Comment from Report on Accounting Methods

To date, the College has not conducted a feasibility study on a possible capital campaign as was recommended in the strategic plan. The College should conduct a feasibility study and if the results of the study are favorable, a capital campaign should be included in the College's long range plans.

In Process

With the declaration of the Fiscal Watch status by the Ohio Department of Higher Education, the College has focused on an annual campaign for the unrestricted operating funds. The College will revisit the need of a feasibility study after both the Fiscal Watch declaration has been removed and cash reserve balances in total are at an appropriate level.

Section 2 - Audit Report

The Board of Trustees receive a compliance and management letter at the conclusion of each audit. The letter that accompanied the June 30, 2016 audit identified one noncompliance issue.

The one noncompliance comment within the management letter was for not properly encumbering. The College has addressed this issue as part of their work to correct the Financial Accounting Report.

Conclusion

Based on our review, the Auditor of State's Office has determined that the College has substantially implemented or is in the process of implementing an effective financial accounting and reporting system.



Dave Yost • Auditor of State

OWENS STATE COMMUNITY COLLEGE

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2017**