



Dave Yost
Auditor of State

From: Audit Administration
To: All IPA Firms
Subject: Issues Related to Implementation of AOS Bulletin 2015-007 and Auditing the Financial Statements Filed via the Hinkle System
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The purpose of this communication is to reiterate guidance previously provided relative to the audit requirements resulting from the issuance of Auditor of State (AOS) Bulletin 2015-007 and the required annual financial report filings via the Hinkle System. In addition, we would like to provide examples of situations where AOS policies were not followed.

Auditing the Financial Statements filed via the Hinkle System

As you are aware, per the Bulletin, the financial statements and notes to the financial statements filed via the Hinkle System beginning with reporting periods ended in 2016 (i.e. audit periods 2015-2016, 2016 or 2016-2017) are required to be audited. One of the overall goals of all the policy changes in the Bulletin is to have the clients file on-time and accurately, so that audits can be performed in a timely manner. As many clients have been used to either filing drafts by the due date and providing subsequent updates and/or not actually providing financial statements and footnotes, several clients have needed to refile their 2016 financial statements and notes in the Hinkle System so the financial statements and notes to be audited are the ones filed via the Hinkle System. The AOS anticipated refile would be necessary; therefore, footnote 56 to section 1-17 of the *Ohio Compliance Supplement* was included, which states:

For 2016 year end engagements, including biennial periods 2015-2016 or 2016-2017, if the public office or other entity required to file originally submitted timely but must refile in order for the AOS/IPA firm to audit the financial statements submitted via the Hinkle System, noncompliance with filing deadlines should be communicated verbally rather than including a citation in the management letter. However, GAAP mandated public offices should be cited if the final financial statements filed via the Hinkle System are not GAAP basis.

Remember, the exception for 2016 above is only to not include a citation in the management letter for filing late if the client originally filed timely but is required to refile. The client would still need to refile the 2016 financial statements and notes to the financial statements to be audited via the Hinkle System. Financial statements and notes that have not been filed in the Hinkle System should not be audited. If the client does not file or will not refile, you should communicate with the respective AOS regional office to determine if the client should be declared unauditible or if a modified opinion (adverse or qualified) is required. **When contacting a regional office, please be prepared to provide dates and documentation of your firm's communications with the client to demonstrate timely planning.**

Required Procedures:

As indicated on page 9 of the Bulletin “*At the commencement of the audit, the AOS or IPA will verify with the entity that the financial statements submitted via the Hinkle System are the final, unaudited financial statements for the audit period.*” In order to meet this requirement, the auditors should **review the Hinkle System filing** to determine the intended accounting basis was selected and review the uploaded financial statements to determine they are for the correct entity, correct period and appear to be complete. If, from this review, the auditors determine the basis of accounting (filing type) is incorrect and /or the financial statements and notes to the financial statements uploaded do not appear to be the final, unaudited financial statements for the entity, the auditors must inform the entity that they need to refile immediately. If the Hinkle System filing appears to be correct, the auditors need to ask the entity if the financial statements filed are the final, unaudited financial statements to be audited. If the client indicates the financial statements and notes are only draft and need to be updated, the auditors must inform the entity that they need to refile immediately so the financial statements audited are the ones that are filed in the Hinkle System.

There are several important reasons to ensure entities select the correct basis of accounting, key in the data accurately (if applicable) and upload the final, unaudited financial statements that will be audited in the Hinkle System, as well as, that auditors properly complete the Hinkle System adjustment application:

- **Basis of Accounting** - selecting the correct basis of accounting ensures the correct statutory due date is reflected for extension request purposes and determining compliance. Also, for those entities that are required to key in select financial statement data (cities, counties, school districts, ESCs, community schools, STEM schools, townships, libraries and villages), selecting the correct basis of accounting is necessary to load the correct financial statement data shells for keying the data;
- **Keyed Data** - the data keyed by the entities is used for multiple purposes, including providing the unaudited data to the governor and the legislature, as required by statute, as well as the public on the AOS website. If you were not already aware, all the unaudited data from the Hinkle System is posted to the AOS [website](#), and we are currently working to automate the spreadsheets posted to reflect up-to-date data as entities file or refile. In the future, data from the Hinkle System adjustment application will also be provided on the AOS website; therefore, it is important that AOS auditors and the IPA firms complete the adjustment application properly for every applicable entity for every filing year (2016 and beyond). For the Financial Health Indicators (FHI) reports, created for all cities and counties, both the entity keyed data and adjustment data are used in generating those reports. If the basis of accounting, keyed data, and/or adjustments are incorrect, the FHI reports are incorrect.
- **Uploaded Final, Unaudited Financial Statements** – the goal is for entities to file their financial statements for audit both on time and accurately so audits can be completed timely. Completion of their Hinkle System filing is intended to signal the entity’s financial statements and notes to the financial statements are completed and ready for

audit. Failure to file or filing late may have consequences ranging from a management letter citation to being declared unauditible.

For 2015-2016, 2016 or 2016-2017 audits and agreed-upon procedures engagements, if the client is required to refile its 2016 and/or 2017 Hinkle System filing after the initial, on time filing, the auditors should provide a verbal comment to indicate in the future, if the entity is required to refile after the due date in order for the financial statements filed via the Hinkle System to be the final, unaudited financial statements for audit, a citation will be issued in the management letter for late filing, even if the original filing was on time. Documentation of this verbal comment should be included in the working papers.

Examples of Situations in Which the Intended Policy was Not Followed:

- Audited financial statements were submitted to the Center for Audit Excellence (CFAE) for review; however, the client did not file complete financial statements and notes via the Hinkle System. For example:
 - The uploaded file did not include notes to the financial statements;
 - The uploaded file only included notes to the financial statements as the client believed the data entry made into the system was adequate to fulfill the presentation of financial statements; or
 - The uploaded file included a copy of the Hinkle System data entry (not the full financial statements) and notes to the financial statements.

AOS Bulletin 2015-007 requires the auditor to audit the unaudited financial statements filed via the Hinkle System. CFAE's review may not commence until the Hinkle System filing is complete. For 2017 audit periods (except 2016-2017 periods), CFAE will not log in submitted reports until the Hinkle System filing is complete and agrees to the audited financial statements, unless adjustments were noted in the audit adjustment application, which may result in a late IPA report submission. In addition, the report submission may be considered a recall if the filing/refiling via the Hinkle System is now late and requires the addition of a non-compliance citation to be reported.

- The basis of accounting selected in the Hinkle System did not correspond with the financial statements and notes filed. As communicated in April 2017, the correct basis of accounting selected drives the due date of the filing, extensions, and the financial statement shells for keying the financial statement data. Clients **must** refile their 2016 and later Hinkle System filings if the entity type requires data entry (i.e. cities, counties, school districts, ESCs, community schools, STEM schools, townships, libraries and villages) or if the selection of the incorrect basis of accounting affects the due date, even if the uploaded file is complete and prepared on the intended basis of accounting.
- Financial statements filed in the Hinkle System were not filed timely and a non-compliance citation was not reported in the management letter. For 2017 audit periods (except 2016-2017 periods), the report submission to CFAE may be considered a recall if a non-compliance citation is required to be reported.

- The Hinkle System adjustment application was not completed prior to the audit report submission to CFAE. As communicated in September 2016 and again in April 2017, the Hinkle System includes a process to post audit adjustments to the Hinkle System filings for audits of entity types required to input financial statement and related data as part of their Hinkle System filing. Completing the adjustment application is required prior to the submission of the audit report to CFAE. For 2017 audit periods (except 2016-2017 periods), CFAE will not log in submitted reports until the adjustment application is complete, which may result in a late IPA report submission.
- The Hinkle System adjustment application was not completed subsequent to the client refiling their financial statements and notes. In situations requiring the client to refile in the Hinkle System, the adjustment application is reset. If a client is required to refile their Hinkle System filing, the auditor must also complete the adjustment application again, even if previously completed prior to the Hinkle System refiling.
- Note disclosures for a two-year audit period were combined into a single set of notes covering both years of the audit period, either because the client incorrectly submitted notes in the former two-year format or the auditor used the submitted notes for each year to create combined two-year notes using the former two-year format. The Hinkle System filing is an annual filing, therefore, the structure of the two-year audit report should include two full years of separate financial statements and notes to comply with the AOS Bulletin 2015-007 requirement to audit the financial statements and notes to the financial statements filed via the Hinkle System. Please refer to the [Regulatory Cash Basis Financial Statement](#) shells for guidance. For 2017 audit periods (except 2016-2017 periods), the report submission may be considered a recall when biennial notes to the financial statements are presented in the audit report.

Audit Inquiry Form

We have had several requests from clients to reopen their Hinkle System filing link, mostly because they did not include their notes to the financial statements in the PDF document or the uploaded notes are for an accounting basis other than that of the financial statements. If your client needs to refile, please direct them to the [AOS Annual Financial Statement Filing Inquiry Form](#). If your client needs to merge PDF files together in order to upload **one** PDF document, please refer them to the [PDF Document Quick Guide](#) on our website.

If you have any questions or concerns, please email IPACorrespondence@ohioauditor.gov.